



LOS ANGELES COMMUNITY COLLEGE DISTRICT

Basic Financial Statements

June 30, 2002

(With Independent Auditors' Report Thereon)

LOS ANGELES COMMUNITY COLLEGE DISTRICT

June 30, 2002

Los Angeles County, California:

- East Los Angeles College
 - Los Angeles City College
 - Los Angeles Harbor College
 - Los Angeles Mission College
 - Los Angeles Pierce College
 - Los Angeles Southwest College
 - Los Angeles Trade Technical College
 - Los Angeles Valley College
 - West Los Angeles College
-

LOS ANGELES COMMUNITY COLLEGE DISTRICT

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INTRODUCTION



LOS ANGELES COMMUNITY COLLEGES

CITY • EAST • HARBOR • MISSION • PIERCE • SOUTHWEST • TRADE-TECHNICAL • VALLEY • WEST

OFFICE OF THE CHANCELLOR
Mark Drummond

December 18, 2002

Members, Board of Trustees
Los Angeles Community College District

I have received and reviewed and am pleased to submit the Annual Financial Report of the Los Angeles Community College District (District) for the fiscal year ended June 30, 2002. This report is presented in six sections, which include an Introduction, the Management's Discussion and Analysis, the Independent Auditor's Report, the Basic Financial Statements, the Supplemental Information, the Current Year State Findings and Recommendations, and the Current Year Federal Findings & Questioned Costs including the Status of Prior Year Findings and Recommendations. The report also includes all Funds of the Los Angeles Community College District as well as those of student organizations.

The introductory section contains the objectives of the audit as well as my remarks. The Independent Auditor's Report provides the auditor's opinion on the audit. The Management's Discussion and Analysis provides the management information and analysis on the district's financial changes and condition for the year. The basic financial statements include the three financial statements, as well as the notes the financial statements and schedules. Supplementary information includes the combining and individual funds and account group financial statements and schedules, a description of the organization of the District, a schedule of full-time equivalent students and apprenticeship clock hours and a reconciliation of the financial statements to the Annual Financial and Budget report submitted to the State of California. Also included in this section are the independent auditor's reports on the internal accounting and administrative controls of the District as well as the State and Federal compliance required by the California State Department of Finance and the Single Audit Act of 1984. The final section provides the current year's audit findings and recommendations as well as the implementation status of the auditor's prior year recommendations.

The District is responsible for the accuracy, completeness and fairness of the financial statements, including all disclosures. We believe that the data presented are accurate in all material respects and present fairly the financial activities of the District's various Funds, and that the informative disclosures are sufficient to provide an understanding of the District's fiscal affairs. The auditor's opinions included in the annual report reflect our belief.

District Background

The District and its nine campuses provide a broad range of educational services to students within the Los Angeles area. The nine Los Angeles community colleges comprise the nation's largest community college system - the result of a movement which had its beginning in the California State Legislature in 1907, the year the Caminetti Bill was passed, permitting high schools to offer postgraduate courses. The Ballard Act of 1917 and the Deering Act of 1929 assured financial support for the State's community colleges.

In March 1931, a separate Los Angeles Junior College District was created and granted a taxing power of its own and was designed to serve a larger area than the city. The Board of Education and the Superintendent of Los Angeles County Schools assumed administrative control of the District. Due to the dramatic expansion during the postwar period, the state's two-year junior colleges were moved away from the secondary education system and into higher education. In 1967, Governor Reagan authorized establishment of a Board of Governors for the California Community Colleges. In that same year, legislation passed which provided for a separate community college Board of Trustees and administration. The first Trustees of the Los Angeles Community College District were sworn into office on July 1, 1969.

The Los Angeles Community College District serves approximately 120,000 students, employs approximately 3,889 full-time and 9,875 part-time personnel and covers a service area of more than 800 square miles.

Enrollment

The Los Angeles Community College District's enrollment for the fiscal year ended June 30, 2002 increased 7.8 percent from the previous year.

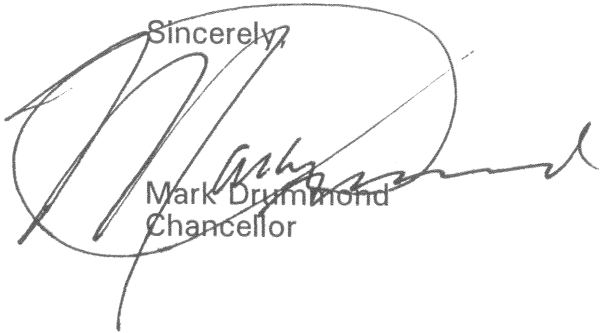
Enrollment figures (credit student headcounts) by campus for the 2001-2002 fiscal year were as follows:

	Fall	Spring
East Los Angeles College	19,373	19,888
Los Angeles City College	17,095	17,882
Los Angeles Harbor College	8,855	8,987
Los Angeles Mission College	7,875	7,926
Los Angeles Pierce College	17,954	18,392
Los Angeles Southwest College	6,616	6,544
Los Angeles Trade-Technical College	13,250	12,247
Los Angeles Valley College	18,487	18,208
West Los Angeles College	8,313	9,291
Instructional Television	1,615	1,810
Total Districtwide	119,433	121,175

Members, Board of Trustees
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December 18, 2002

Your attention is directed to the Independent Auditor's Report, the Management's Discussion and Analysis, and the Basic Financial Statement sections which represent the complete representation of the district's financial information.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark Drummond", is written over a large, light-colored oval. The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Mark Drummond
Chancellor

MANAGEMENT'S DISCUSSION AND ANALYSIS

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis

This section presents Management's Discussion and Analysis (MD&A) of the Los Angeles Community College District's (the District) financial activities during the fiscal year ended June 30, 2002. The discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section. In future years, when prior year information is available, a comparative analysis will be provided.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$ 280.7 million (net assets). Of this amount, \$9.7 million (unrestricted net assets) may be used to meet the District's ongoing obligations and \$50.8 million (restricted net assets) may be used for the District's ongoing obligations related to programs with external restrictions. The remaining component of the District's net assets represents \$220.2 million of amounts invested in capital assets, net of related debt.
- The District's total net assets increased \$40.6 million during the current fiscal year. A significant portion of the increase in the District's net assets is a result of the capitalization of capital assets in the basic financial statements.
- The District's investment in capital assets increased by \$52.2 million or 14%. During the current fiscal year, the District acquired two additional properties, one for the Los Angeles Trade-Technical College, valued at \$5.3 million and the other for the Los Angeles City College, valued at \$12 million. Of the \$52.2 million increase in capital assets, \$8.3 million represents an increase in buildings and \$27.5 million increase in construction in progress. Capital construction projects related to the Proposition A Bonds accounted for \$19.4 million of in construction in progress at June 30, 2002.
- The Districts total long-term debt increased by \$ 27.7 million or 4.7% during the current fiscal year.

Overview of the Financial Statements

As of July 1, 2001, the District implemented new financial reporting changes established by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. These statements require the District to report its financial statements as the institution-wide under the business-type-activity reporting model, instead of the traditional reporting by fund type. In addition to GASB No. 34 and 35, the District was also required to adopt the provisions of GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, Statement 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

Management's Discussion and Analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements include four components: (1) Statement of Net Assets; (2) Statement of Revenues, Expenses, and Changes in Net Assets; (3) Statement of Cash Flows; and (4) Notes to the Basic Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves. Because these reporting model changes significantly both the recording and presentation of financial data, the District has not restated prior fiscal years for the purposes of providing comparative information for the MD&A. In future years, a comparative analysis of government-wide data will be included in this report.

The Statement of Net Assets represents combined assets, liabilities, and net assets of the entire District, including Associated Student Organization financial information. Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The Statement of Revenues, Expenses, and Changes in Net Assets represents the revenues received, operating and nonoperating, and any other revenues, expenses, gains and losses received, or spent by the District. The Statement of Cash Flows presents detailed information about the cash activity of the District during the year. The purpose of these financial statements is to summarize the financial information of the District as a whole and presents a long-term view of the District's finances.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the District as of the end of the fiscal year. The Statement of Net Assets is a point in time financial statement. The purposes of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of the Los Angeles Community College District. The Statement of Net Assets presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities). From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, investors and lending institution.

Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the institution. Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the institution's equity in property, plant and equipment owned by the institution. The second net asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final net asset category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the institution.

Statement of Revenue, Expenses, and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the District, operating and nonoperating, and any other revenues, expenses, gains and losses received, or spent by the District.

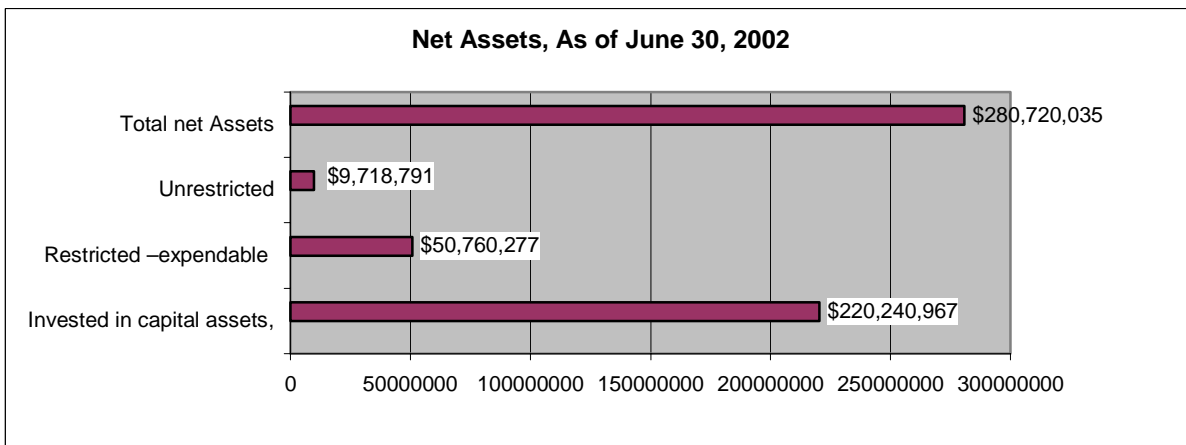
Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the District. Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations are nonoperating because they are provided by the Legislature to the institution without the Legislature directly receiving commensurate goods and services for those revenues.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

As noted earlier, net assets may serve over time as a useful indicator of an institution's financial position. In the case of the District, assets exceeded liabilities by \$280.7 million at the close of the current year. Of this amount, \$9.7 million (unrestricted net assets) may be used to meet the District's ongoing obligations and \$50.8 million (restricted net assets) may be used for the District's ongoing obligations related to programs with external restrictions.

Summary Schedule of Net Assets
June 30, 2002

Assets:	
Current and other assets	\$ 724,038,857
Capital assets, net	<u>269,562,403</u>
Total assets	<u>993,601,260</u>
Liabilities	
Current liabilities	82,775,608
Noncurrent liabilities	<u>630,105,617</u>
Total liabilities	<u>712,881,225</u>
Net assets	
Invested in capital assets, net of debt	220,240,967
Restricted – expendable	50,760,277
Unrestricted	<u>9,718,791</u>
Total net assets	<u><u>\$ 280,720,035</u></u>



As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$280.7 million at June 30, 2002. A significant portion of the District's net assets represent \$515 million of short-term investments and \$269 million of capital assets. The District's net assets also include \$610 million of long-term debt. The majority of the District's long-term debt is used to fund the construction and acquisition of capital assets.

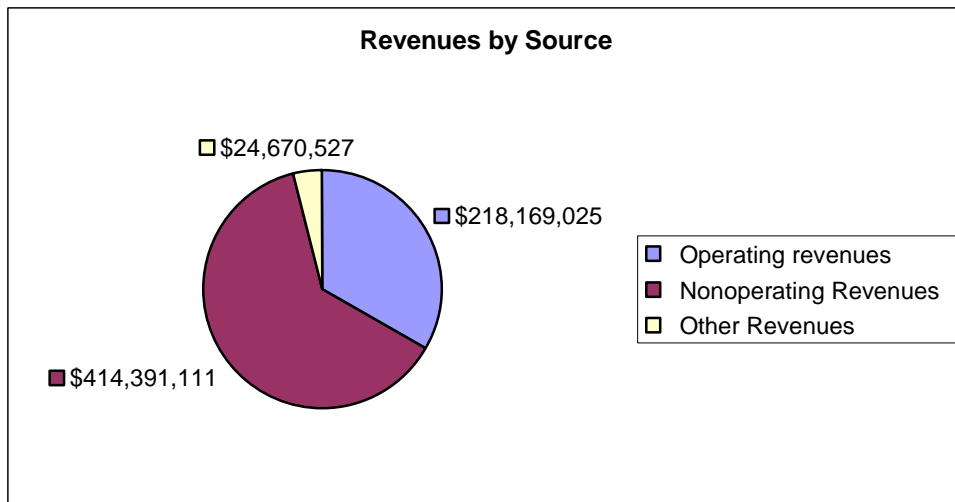
Summary Schedule of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2002

Revenues:	
Operating revenues:	
Net tuition and fees	\$ 32,395,058
Grants and contracts, noncapital	153,392,268
Other	32,381,699
Nonoperating revenues:	
State apportionments, noncapital	250,234,337
Property taxes	106,208,590
Investment income	31,260,449
Other	26,687,735
Other revenues:	
State apportionments, capital	20,394,552
Local property taxes and revenues, capital	4,275,975
	657,230,663
Total revenues	
Expenses:	
Operating expenses:	
Salaries	329,944,145
Employee benefits	69,882,112
Supplies, materials, and other operating expenses and services	189,192,101
Other	16,865,211
	605,883,569
Total operating expenses	
Nonoperating expenses:	
Interest expense	1,612,746
Other	9,179,492
	616,675,807
Total expenses	
Increase in net assets	\$ 40,554,856

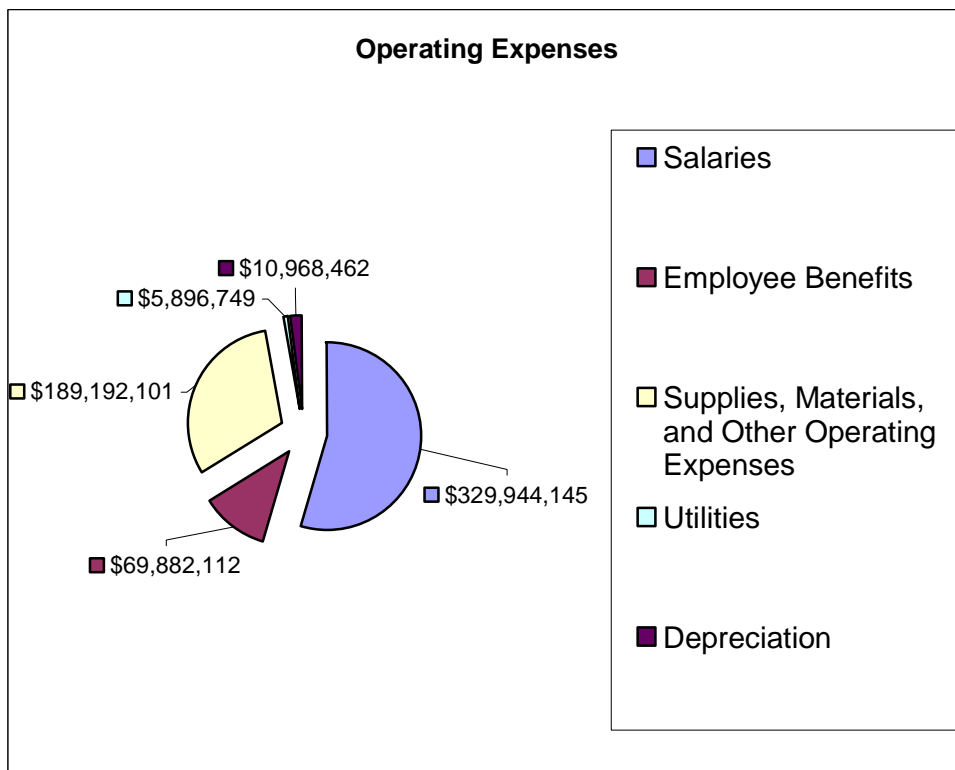
The Statement of Revenues, Expenses, and Changes in Net Assets reflects a favorable year with an increase in the net assets at the end of the year. Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Assets are as follows:

- The increase in net assets of \$40.6 million represents the degree to which increases in ongoing revenues exceeded increases in ongoing expenses.
- Operating revenues include \$32.4 million in tuition and fees, \$77.9 million in federal grants and contracts, \$37.2 million in state grants and contracts, \$38.2 million in local grants and contracts, and \$32.3 million in auxiliary enterprise sales and charges.

- Nonoperating revenues include state apportionments, local property taxes, interest income, and other miscellaneous nonoperating revenues. State apportionments increased by \$9.3 million to fund enrollment growth and \$4.9 million for part-time faculty compensation. Property taxes increased by \$3.5 million due to increased property tax collection. The largest component of the District's non-operating revenues are state apportionments and local property taxes which represent 88% of non-operating revenues for the year ended June 30, 2002.



- Salary expenses represent 54% of the District's total operating expenses. Salary expenses increased by \$46.7 million due to salary increments and increases. Employee benefits increased by \$4.6 million.



CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets as of June 30, 2002 totaled \$269.6 million (net of accumulated depreciation). This investment is comprised of a broad range of capital assets including land, buildings, construction in progress, works of art, infrastructure and machinery, and equipment. All capital assets are capitalized and depreciated. To assist in the implementation of GASB No. 34, the District hired a recognized independent appraisal firm to complete a District-wide assets inventory and compute the estimated historical cost of the District's assets, net of accumulated depreciation. The inventory resulted in a restatement of the District's capital assets as of July 1, 2001 to reflect an increase in the District's capitalization threshold, existing assets, and depreciation values. The following schedule summarizes the activity of the District's capital assets for the year ended June 30, 2002:

Capital Assets, Net

June 30, 2002

	<u>Balance at July 1, 2001</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2002</u>
Land	\$ 18,651,839	13,848,000	—	32,499,839
Land improvements	30,812,500	—	—	30,812,500
Buildings	277,821,241	8,282,803	—	286,104,044
Construction in progress	7,901,159	27,496,568	—	35,397,727
Works of art	436,000	82,000	—	518,000
Equipment	32,076,960	2,512,338	(20,411)	34,568,887
Infrastructure	2,895,800	—	—	2,895,800
Total	370,595,499	52,221,709	(20,411)	422,796,797
Less accumulated depreciation	<u>(142,265,932)</u>	<u>(10,968,462)</u>	<u>—</u>	<u>(153,234,394)</u>
Net capital assets	\$ <u>228,329,567</u>	<u>41,253,247</u>	<u>(20,411)</u>	<u>269,562,403</u>

As of June 30, 2002, the District had recorded additional \$52.2 million in capital assets and \$10.9 million in depreciation. During the year, the District's investments in facility master plans, construction, and building improvements increased due to funding from Proposition A, which is recorded in the District's Building Fund. The District had a significant number of building projects ongoing funded from Proposition A Bond money. A total of \$19 million for Proposition A bond funds were spend for assets under construction. The District acquired property at a cost of \$5.2 million for the Los Angeles Trade-Technical College and also acquired a property to construct a satellite campus for the Los Angeles City College at a cost of \$12 million.

Long-term Debt

The District had \$610.0 million in long-term debt at June 30, 2002. The District's long-term debt increased during the year as a result of the issuance of \$27.7 million of the 2001 Series A Refunding Certificates of Participation to fund the Van De Kamp capital project.

Summary of Outstanding Long-term Debt
June 30, 2002

Refunding COPS:	
1992 Series A	\$ 44,570,000
1993 Series A	5,830,000
1999 Series A	6,730,000
2001 Series A	27,785,000
General obligation bonds	<u>525,000,000</u>
Total long-term debt	<u>\$ 609,915,000</u>

Economic Factors

State Economy

The District is directly impacted by the state economy and deficit problems. The state is facing more than \$21 billion budget deficits and proposing \$215 million midyear cut to community colleges. The District receives more than 75 percent of its general operation funding from the state apportionment and property taxes. The proposed reduction will adversely affect the District's financial condition. The District establishes annually a 4 percent (\$15.9 million for fiscal year 2002-2003) Contingency Reserve to cover unforeseen events. However, the state deficit problem will be a challenge for the District in its attempt to prioritize its resources and reduce costs in the next two years.

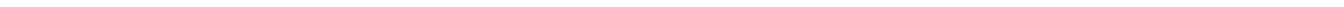
Capital Projects

In April 2001, the District became the first community college district in the state of California to pass a property tax financed bond under the new requirements of the Strict Accountability in Local School Construction Act of 2000, better known as Proposition A. Valued at \$1.245 billion, the District's Proposition A Bond Construction Program (Program) stands as one of the largest community college bonds ever passed in California. The bond measure was designed to implement a capital improvement program for each of the nine colleges within the Los Angeles Community College District. The Program is intended to increase educational opportunities, raise student achievement, and improve health and safety conditions at the nine colleges within the District. These improvements will be accomplished through such things as the replacement and/or repair and rehabilitation of deteriorating buildings, the construction, furnishing, and equipping of classrooms, laboratories, libraries and related facilities.

Student Enrollment and State Funding

The District has had continued enrollment increases over the last three years. This year the district's enrollment increased 7.8 percent. The District serves more than 120,000 students. The District's enrollment has continued to increase over the last three years. As a result, the District has educated more than 10,000 students without any additional funding to support the costs. The District is seeking legislative changes to provide for additional funding for enrollment and to strengthen efforts to modernize facilities, renew programs, and services to ensure access to students and community.

BASIC FINANCIAL STATEMENTS





355 South Grand Avenue
Suite 2000
Los Angeles, CA 90071-1568

Independent Auditors' Report

The Honorable Board of Trustees
Los Angeles Community College District
Los Angeles, California:

We have audited the accompanying basic financial statements of the Los Angeles Community College District (the District) as of and for the year ended June 30, 2002, as listed in the accompanying 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. 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.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the net assets of the Los Angeles Community College District as of June 30, 2002 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 of the notes to the basic financial statements, the District adopted the provisions of Government Accounting Standards Board Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*, and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, effective July 1, 2001.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 13, 2002 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Management's discussion and analysis on pages 1 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying combining and individual fund and account group financial statements and schedules and supplementary information are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

December 13, 2002

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Statement of Net Assets

June 30, 2002

Assets

Current assets:		
Cash and cash equivalents	\$	51,414,624
Short-term investments (note 3)		514,772,749
Accounts receivable, net of allowance		42,698,103
Notes receivable, net-current portion		2,052,936
Student loans receivable, net-current portion		389,945
Deposit with bond trustee		57,944,841
Inventory		8,487,231
Prepaid expenses and other assets		232,723
Total current assets		<u>677,993,152</u>
Noncurrent assets:		
Restricted cash and cash equivalents		39,149,353
Long-term investments		48,993
Notes receivable, net-noncurrent portion		2,815,000
Student loans receivable, net-noncurrent portion		4,032,359
Capital assets (note 6):		
Land		32,499,839
Land improvements		30,812,500
Buildings		286,104,044
Construction in progress		35,397,727
Works of Art		518,000
Machinery and equipment		34,568,887
Infrastructure		2,895,800
Accumulated depreciation		<u>(153,234,394)</u>
Capital assets, net		<u>269,562,403</u>
Total assets	\$	<u><u>993,601,260</u></u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable	\$	41,339,115
Deferred revenue		6,672,784
Compensated absences payable		716,967
General liability		252,100
Workers' compensation		4,714,215
Other accrued liabilities		1,366,703
Amounts held in trust for others		4,974,629
Revenue bonds payable – current		406,653
Long-term debt – current		21,605,000
Capital leases – current		727,442
Total current liabilities		<u>82,775,608</u>
Noncurrent liabilities:		
Compensated absences payable		10,973,203
general liability		1,491,900
Workers' compensation		17,496,785
Revenue bonds payable – noncurrent		3,253,223
Long-term debt – noncurrent		588,310,000
Capital leases – noncurrent		8,580,506
Total noncurrent liabilities		<u>630,105,617</u>
Total liabilities		<u>712,881,225</u>
Net assets:		
Invested in capital assets, net of related debt		220,240,967
Restricted for:		
Expendable:		
Scholarships and loans		4,945,907
Capital projects		2,882,371
Debt service		26,968,285
Other special purposes		15,963,714
Unrestricted		9,718,791
Total net assets		<u>280,720,035</u>
Total liabilities and net assets	\$	<u><u>993,601,260</u></u>

See accompanying notes to basic financial statements.

LOS ANGELES COMMUNITY COLLEGE DISTRICT
Statement of Revenues, Expenditures, and Changes in Net Assets
Year ended June 30, 2002

Operating revenues:	
Tuition and fees (gross)	\$ 43,274,172
Less scholarship discounts and allowances	<u>(10,879,114)</u>
Net tuition and fees	32,395,058
Grants and contracts, noncapital:	
Federal	77,935,099
State	37,273,046
Local	38,184,123
Auxiliary enterprise sales and charges	<u>32,381,699</u>
Total operating revenue	<u>218,169,025</u>
Operating expenses:	
Salaries	329,944,145
Employee benefits	69,882,112
Supplies, materials, and other operating expenses and services	185,214,974
Utilities	5,896,749
Depreciation	<u>10,968,462</u>
Total operating expenses	<u>601,906,442</u>
Operating loss	<u>(383,737,417)</u>
Nonoperating revenues (expenses):	
State apportionments, noncapital	250,234,337
Local property taxes	106,208,590
State taxes and other revenue	1,414,540
Investment income – noncapital	5,300,224
Investment income – capital	25,960,225
Interest expense on capital asset-related debt	(5,589,873)
Other nonoperating revenue	25,273,195
Other nonoperating expense	<u>(9,179,492)</u>
Total nonoperating revenues	<u>399,621,746</u>
Income before other revenues, expenses, gains, or losses	15,884,329
State apportionments, capital	20,394,552
Local property taxes and revenues, capital	<u>4,275,975</u>
Increase in net assets	40,554,856
Net assets:	
Beginning of year, as restated	<u>240,165,179</u>
End of year	<u>\$ 280,720,035</u>

See accompanying notes to basic financial statements.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Statement of Cash Flows

June 30, 2002

Cash flows from operating activities:	\$	37,232,978
Tuition and fees		160,778,950
Grants and contracts		(173,271,764)
Payments to suppliers		(5,896,749)
Payments for utilities		(329,874,562)
Payments to employees		(69,795,831)
Payments for benefits		(10,968,462)
Depreciation		32,235,319
Bookstore and cafeteria sales		304,977
Sales and service of educational		(400,366)
Other payments		<u>(359,655,510)</u>
Net cash used in operating activities		<u>(359,655,510)</u>
Cash flows from noncapital financing activities:		
State appropriations		250,234,337
Property taxes		108,420,855
Investment income – noncapital		5,300,224
Other receipts		<u>10,907,363</u>
Net cash provided by noncapital financing activities		<u>374,862,779</u>
Cash flows from capital financing activities:		
Proceeds from capital debt		27,785,000
Capital appropriations		24,670,526
Purchases of capital assets		(51,826,306)
Principal paid on capital debt and leases		(2,985,000)
Interest paid on capital debt and leases		(9,551,493)
Deposit with trustee		<u>(57,944,841)</u>
Net cash used in capital financing activities		<u>(69,852,114)</u>
Cash flows from investing activities:		
Interest on investments		<u>25,960,225</u>
Net cash provided by investing activities		<u>25,960,225</u>
Net decrease in cash and cash equivalents		(28,684,620)
Cash and cash equivalents – beginning of the year		<u>119,248,597</u>
Cash and cash equivalents – end of year	\$	<u><u>90,563,977</u></u>
Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities:		
Operating loss	\$	(383,737,417)
Appraisal adjustments, net		93,911,701
Adjustments to reconcile net income (loss) to net cash provided (used) by provided (used) by operating activities:		
Depreciation expense		10,968,462
Changes in assets and liabilities:		
Receivables, net		(26,167,932)
Inventories		(2,069,964)
Other assets		667,724
Accounts payable		5,813,499
Deferred revenue		(2,550,873)
Deposits held for others		2,109,341
Deposit with bond trustee		(57,944,841)
Other liabilities		(1,829,011)
Compensated absences		<u>1,173,801</u>
Net cash used by operating activities	\$	<u><u>(359,655,510)</u></u>

See accompanying notes to basic financial statements.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2002

(1) Organization and Reporting Entity

The District is a political subdivision of the state of California and is located within the County of Los Angeles. The District's operations consist principally of providing educational services to the local residents of the District. In conjunction with educational services, the District also provides supporting student services such as the operation of campus bookstores and cafeterias. The District consists of nine community colleges located within the County of Los Angeles.

For financial reporting purposes, the District includes all funds and account groups that are controlled by or dependent on the District's governing board. In addition, the basic financial statements of the District include the financial activities of the District and the combined totals of the trust and agency funds which primarily represent Associated Student Organizations and various scholarships within the District. Associated Student Organizations are recognized agencies of the Los Angeles Community College District and were organized in accordance with provisions of the California Education Code to control the administration of student funds. The financial affairs of the Associated Student Organizations are administered under the direction of the College Financial Administrators of the respective colleges, with the supervision and guidance of the Senior Vice Chancellor of Operations.

(2) Summary of Significant Accounting Policies

(a) *Basis of Presentation*

The basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

(b) *Implementation of New Accounting Principles*

The District adopted the provisions of GASB Statements Nos. 34, 35, 37, 38 and Interpretation No. 6 as of July 1, 2001. These statements introduced significant changes in the way that public colleges and universities and their affiliated entities report financial position and changes in net assets in their external financial statements. Among these changes were a new format for the District's financial statements, full accrual accounting, management's discussion and analysis, and other required supplementary information. Another significant requirement of the statements related to the District is to report the financial position of the District in a Schedule of Net Assets. The net assets of the District are broken down into three categories: (1) invested in capital assets, net of related debt, (2) restricted, and (3) unrestricted. Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and Statement 35, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, Statement 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, were required to be implemented at the same time.

The District's operating revenue includes tuition, fees, and federal and state revenues. Operating costs include cost of services as well as materials, contracts, personnel, and depreciation.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2002

Under the provisions of GASB Standards, the District has chosen to present its basic financial statements using the reporting model for special-purpose governments engaged only in business-type activities. This model allows all financial information for the District to be reported in a single column in each of the basic financial statements. The effect of internal activity between funds or groups of funds has been eliminated from these basic financial statements.

(c) Cash and Cash Equivalents

The District participates in the common investment pool of the County of Los Angeles, California, which is stated at cost, which approximates market value. For purposes of the statement of cash flows, the District considers all cash and investments pooled with the County plus any other cash deposits or investments with initial maturities of three months or less to be cash and cash equivalents.

(d) Inventory

Bookstore, cafeteria, and supply inventories are recorded at cost on the first-in, first-out basis and expended on the consumption method.

(e) Properties and Depreciation

Properties are carried at cost or at appraised fair market value at the date received in the case of properties acquired by donation, and by termination of leases for tenant improvements, less allowance for accumulated depreciation. Depreciation is computed by use of the straight-line method over the estimated useful lives of the assets.

Current ranges of useful lives for depreciable assets are as follows:

Land improvements	15 years
Buildings	50 years
Building improvements	20 years
Equipment	3 to 7 years
Vehicles	5 years
Infrastructure	15 years
Leasehold improvements	7 years

The District's capitalization threshold is as follows:

Movable equipment	\$5,000 and above
Land, building, and infrastructure	\$50,000 and above

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2002

(f) *Accrued Employee Benefits*

It is the policy of the District to recognize as an expense the costs associated with employee vacation benefits as they are paid. The District has accounted for vacation leave benefits which have been earned but not taken as a liability within the statement of net assets since it is believed that this liability will not be liquidated with current available resources.

Accumulated sick leave benefits are not recognized as liabilities 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.

(g) *Deferred Revenue*

A majority of the deferred revenue balance represents cash collected in advance for tuition and student fees and will be recognized as revenue in the period in which it is earned. Deferred revenue also includes an amount relating to the District's office lease expense computed under the straight-line method.

(h) *Capitalized Interest*

It is the District's policy to offset interest income against interest costs for construction projects financed with tax-exempt borrowings.

(i) *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 the reported amounts of assets and liabilities, revenues, and expenses in the accompanying basic financial statements. Actual results could differ from those estimates.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2002

(j) Restatement

In conjunction with the adoption of Governmental Accounting Standards Board Statements No. 34, 35, and 37, the beginning fund balances of the District have been restated to reflect the following balances as of July 1, 2001:

Fund balances as of June 30, 2001, as previously reported:

Governmental fund types:

General	\$ 69,224,678
Special revenue	30,947,561
Debt service	7,550,200
Building fund	525,000,000

Fiduciary fund types:

Trust and agency	3,480,337
Student financial aid fund	1,674,567

637,877,343

Reconciliation of fund balances to net assets as of June 30, 2001, as restated:

Capital assets, long-term liabilities net of depreciation	228,329,567
Long-term liabilities	(624,158,101)
Accrued interest	(1,612,746)
Other	(270,884)

(397,712,164)

Net assets as of June 30, 2001, as restated \$ 240,165,179

(3) Cash and Investments

Cash and investments at June 30, 2002 consist of the following:

Cash in County Treasury	\$ 77,964,562
Cash in banks	12,195,883
	<u>90,160,445</u>
Total cash	90,160,445
Investments	514,721,589
	<u>514,721,589</u>
Total cash and investments	\$ <u>604,882,034</u>

As provided for by the State of California Education Code, a significant portion of the District's cash balances is deposited with the County Treasurer for the purpose of increasing interest earnings through county investment activities. Each respective fund's share of the total pooled cash is included in the accompanying combined balance sheet under the caption Cash in County Treasury. Interest earned on such pooled cash balances is distributed to the participating funds based upon each fund's average cash balance during the distribution period. The California Government Code requires California banks and savings and

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2002

loan associations to collateralize the District's deposits by pledging government securities as collateral. All deposits with financial institutions must be collateralized in an amount equal to 110% of uninsured deposits. At no time during the year did the value of the collateralized property fall below 110% of uninsured deposits.

Under provisions of the District's investment policy, and in accordance with Sections 53601 and 53602 of the California Government Code, the District may invest in the following types of investments:

- Securities of the U.S. Government or its agencies
- Small Business Administration Loans
- Negotiable Certificates of Deposit
- Bankers' Acceptances
- Commercial Paper
- Local Agency Investment Fund (State Pool) Deposits
- Passbook Savings Account Demand Deposits
- Repurchase Agreements.

At June 30, 2002, the District had cash in banks with a carrying value and bank balance of \$12,195,883 and \$22,496,783 respectively. Of the bank balance, \$248,638 was covered by federal depository insurance, of which \$22,248,145 was collateralized with securities held by the pledging financial institution's trust department, but not in the District's name. The difference between the carrying value and the bank balance represents items in transit in the normal course of business and cash on hand.

The District accounts for investments held in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which establishes fair value standards for investments held by governmental entities.

At June 30, 2002, the District's investments consist primarily of U.S. Government Securities, and corporate notes and bonds which are carried at fair value, based on quoted market values.

Specifically identifiable investments are classified as to credit risk by three categories and summarized below as follows: Category 1 includes investments that are insured or registered or for which securities are held by the District or its agent in the District's name and deposits insured or collateralized with securities held by the District; Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name and deposits collateralized with securities held by the pledging financial institution's trust department or agent in the District's name; Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the District's name.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2002

All certificates of deposit are collateralized as required by California state law for any amount exceeding FDIC or FSLIC coverage. Collateral is held in trust by the institutions and monitored by the State Superintendent of Banking.

	<u>1</u>	<u>2</u>	<u>3</u>	Fair market value
Categorized – investments:				
Marketable equity securities	\$ —	138,047	—	138,047
	\$ —	138,047	—	138,047
Noncategorized investments:				
Master repurchase agreement				512,295,000
Certificates of deposit				2,239,549
Investment in real estate				48,993
Total investments				\$ <u>514,721,589</u>
Cash in County Treasury				\$ <u>77,964,562</u>

The District's noncategorized investments earn interest at rates ranging from 2.75% to 4.57%.

(4) Accounts Receivable

Accounts receivable at June 30, 2002 are summarized as follows:

Tax delinquencies	\$ 14,914,715
Federal and state programs	19,671,587
State lottery	2,225,176
Interest receivable	1,214,256
Note receivable	4,867,936
Accounts receivable – Principal Apportionment	9,526,449
Accounts receivable – Campus Students	1,070,053
Accounts receivable – Credit Memos	3,621,190
Accounts receivable – NSDL/Nursing Loans	4,138,548
Other	8,344,453
Less: allowance for doubtful accounts	<u>(17,323,370)</u>
Accounts receivable, net	\$ <u>52,270,993</u>

The allowance for doubtful accounts is maintained at an amount sufficient to fully reserve tax delinquencies as well as the possible uncollectibility of other receivable balances.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2002

Tax delinquencies represent prior and current year unpaid/unreceived property taxes which were assessed and billed by Los Angeles County during the 2001/2002 year and prior. The District receives tax revenues from the County biannually in December and April. Any amounts which remain unpaid/unreceived by the District within 60 days of fiscal year-end are considered delinquent. The Los Angeles County board of supervisors is the taxing authority which levies and collects tax revenues.

(5) Accounts Payable

Accounts payable at June 30, 2002 are summarized as follows:

L.A. Sheriff's Department	\$	2,664,571
Utilities		807,021
Payroll accrual		9,107,739
Interest payable		3,126,612
Grants		4,644,421
Medicare accrual		659,055
Financial aid payable		2,706,669
Plumbing, piping and roding		1,637,471
Program management – DMJM/JGM		3,775,000
Claims payable		700,000
Board of Equalization		559,808
Vendors payable		<u>10,950,748</u>
Total	\$	<u>41,339,115</u>

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2002

(6) Capital Assets

A summary of changes in capital assets follows (in thousands):

	<u>Balance at July 1, 2001</u>	<u>Appraisal Adjustments</u>	<u>Balance July 1, 2001, as restated</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2002</u>
Capital assets not being depreciated:						
Land	\$ 22,066,394	(3,414,555)	18,651,839	13,848,000	—	32,499,839
Construction in process	—	7,901,159	7,901,159	27,496,568	—	35,397,727
Works of art	—	436,000	436,000	82,000	—	518,000
Total capital assets, not being depreciated	<u>22,066,394</u>	<u>4,922,604</u>	<u>26,988,998</u>	<u>41,426,568</u>	<u>—</u>	<u>68,415,566</u>
Capital assets being depreciated:						
Land improvements	—	30,812,500	30,812,500	—	—	30,812,500
Buildings	388,569,599	(110,748,358)	277,821,241	8,282,803	—	286,104,044
Equipment	194,298,653	(162,221,693)	32,076,960	2,512,338	(20,411)	34,568,887
Infrastructure	—	2,895,800	2,895,800	—	—	2,895,800
Total capital assets being depreciated	<u>582,868,252</u>	<u>(239,261,751)</u>	<u>343,606,501</u>	<u>10,795,141</u>	<u>(20,411)</u>	<u>354,381,231</u>
Less accumulated depreciation	<u>—</u>	<u>(142,265,932)</u>	<u>(142,265,932)</u>	<u>(10,968,462)</u>	<u>—</u>	<u>(153,234,394)</u>
Total capital assets being depreciated, net	<u>582,868,252</u>	<u>(381,527,683)</u>	<u>201,340,569</u>	<u>(173,321)</u>	<u>(20,411)</u>	<u>201,146,837</u>
Total	<u>\$ 604,934,646</u>	<u>(376,605,079)</u>	<u>228,329,567</u>	<u>41,253,247</u>	<u>(20,411)</u>	<u>269,562,403</u>

(7) Lease Commitments

The District leases various assets, as lessee, under operating lease agreements. Lease payments under operating leases (including month-to-month leases) approximating \$5,662,718 have been charged as expenses in the accompanying combined statement of revenues, expenditures, and changes in net assets.

At June 30, 2002, minimum lease commitments under long-term lease contracts, including the District's central office lease, were as follows:

Year ending June 30:	
2003	\$ 2,146,263
2004	2,338,637
2005	2,241,580
2006	2,128,415
2007	1,973,221
2008-2012	10,718,199
2013-2017	1,446,696
Total	<u>\$ 22,993,011</u>

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2002

In August 2001, the District exercised the option to extend the current lease agreement for eight additional years to August 2013. The total additional cost under this option is \$8,680,200 for a total lease cost of approximately \$30,000,000.

(8) Employee Retirement Systems

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the state of California. Certificated employees are members of the State Teachers' Retirement System, and classified employees are members of the Public Employees' Retirement System. In addition, employees not participating in the State Teachers' Retirement System or the Public Employees' Retirement System may participate in the Public Agency Retirement System, which is a defined contribution plan.

(a) Plan Descriptions and Provisions

State Teachers' Retirement System (STRS) – All full-time certificated employees participate in the STRS, a cost-sharing multiple-employer contributory public employee retirement system defined benefit pension plan. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

Employees attaining the age of 60 with five years of credited California service (service) are eligible for normal retirement and are entitled to a monthly benefit of 2% of their final compensation for each year of service. Final compensation is defined as the highest average salary earned during three consecutive years of service. The plan permits early retirement options at age 55 or as early as age 50 with 30 years of service. Disability benefits of up to 90% of final compensation are available to members with five years of service. A family benefit is available if the deceased member had at least one year of service and was an active member or on disability leave. After five years of credited service, members become 100% vested in retirement benefits earned to date. If a member's employment is terminated, the accumulated member contributions are refundable.

Benefit provisions for STRS are established by the State Teachers' Retirement Law (Part 13 of the California Education Code, Sec. 22000 et seq.). STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the annual financial report may be obtained from the STRS Executive Office.

California Public Employees' Retirement System (PERS) – All full-time classified employees participate in the PERS, an agent multiple-employer contributory public employee retirement system defined benefit pension plan that acts as a common investment and administrative agent for participating public entities within the state of California. The Los Angeles Community College District is part of a cost-sharing pool within PERS. One actuarial valuation is performed for those employers participating in the pool, and the same contribution rate applies to each.

Employees are eligible for retirement at the age of 50 and are entitled to a monthly benefit of 1.1% of final compensation for each year of service credit. The rate is increased if retirement is deferred beyond the age of 50, up to age 63. Retirement compensation is reduced if the plan is coordinated with Social Security.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2002

The plan also provides death and disability benefits. Retirement benefits fully vest after five years of credited service. Upon separation from the Fund, members' accumulated contributions are refundable with interest through the date of separation.

Benefit provisions for PERS are established by the Public Employees' Retirement Law (Part 3 of the California Government Code, Sec. 20000 et seq.). PERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the annual financial report may be obtained from the PERS Executive Office.

(b) Contributions Required and Contributions Made

For fiscal 2000, the District is required by statute to contribute 8.25%, 0%, and 0% of gross salary expenditures to STRS, PERS (pooled), and PERS (security), respectively. Participants are required to contribute 8% and 7% of gross salary to STRS and PERS, respectively.

The District's contributions for the years ended June 30, 2002, 2001, and 2000 are as follows:

		<u>STRS</u>	<u>Percent of required contributions</u>
2002	\$	11,435,718	100%
2001		10,191,800	100
2000		8,848,293	100

The District's contribution represented .61% of the total contributions required of all participating employers in STRS. The District's employer contributions to STRS and PERS met the required contribution rate established by law.

(c) Postretirement Benefits

The District provides postretirement health benefits to its retirees who meet plan eligibility requirements. Substantially all retirees of the District may become eligible for those benefits if they reach the appropriate eligibility requirements for retirement while working for the District. The retirement eligibility for PERS' retirees is a minimum age of 50 and minimum years of service of 5. The retirement eligibility for STRS retirees is a minimum age of 55 and minimum years of service of 5 or a minimum age of 50 with 30 years of service. In addition, the District also has minimum continuous service requirements for retirement that range from 7 years to 20 years, which vary by employee class. The District's expenditures for postretirement health benefits are recognized when incurred. During the fiscal year ended June 30, 2002, expenditures of \$14,256,708 were recognized for postretirement health benefits.

(d) Public Agency Retirement System (PARS)

The Omnibus Budget Reconciliation Act of 1990 (Section 11332) extends the Social Security tax to state and local government employees not participating in a qualified public retirement system. Internal Revenue Code 3121 (b)(7)(F), proposed regulations, allows employers to establish an

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2002

alternative retirement system in lieu of Social Security taxes. Such an alternative system was authorized on June 26, 1991 to be established by the end of calendar year 1991 for certain employees not participating in STRS or PERS.

On December 4, 1991, the District's Board of Trustees adopted PARS, a defined contribution plan qualifying under Sections 401 (a) and 501 of the Internal Revenue Code, effective January 1, 1992, for the benefit of employees not participating in STRS or PERS who were employed on that date or hired thereafter. The District has contracted with the Phase 11 Insurance Services, in which Imperial Trust Company serves as the Trustee, to manage the assets of the PARS plan.

Total contributions to PARS are 7.5%. The employer contribution is 4.25% and the employee contribution is 3.25%. Contributions are vested 100% for employees. Employees can receive benefits when they retire at age 60, become disabled, terminate employment, or die.

(e) Contributions Required and Contributions Made

The District contribution information for the year ended June 30, 2002 is as follows:

	<u>Total employee contributions</u>	<u>Total employer contributions</u>
PARS	\$ 1,514,895	1,923,942

(9) Commitments and Contingencies

The District receives a substantial portion of its total revenues under various governmental grants, all of which pay the District based on reimbursable costs as defined by each grant. Reimbursement recorded under these grants is subject to audit by the grantors. Management believes that no material adjustments will result from the subsequent audit of costs reflected in the accompanying general purpose financial statements.

The District is a defendant in various lawsuits at June 30, 2002. Although the outcome of these lawsuits is not presently determinable, in the opinion of management, based in part on the advice of counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the District or is adequately covered by insurance.

The District has entered into various contracts for the construction of facilities throughout the campuses. At June 30, 2002, the total value of these contracts to be paid over the course of two years approximated \$27,720,000

In February 2002, employees' dental benefits increased from \$1,000 to \$3,000. This increase was applied to current employees of the District and was not extended to retirees. Retirees of the District have been forced to take benefit cutbacks, but not allowed to participate in benefit increases. The Joint Labor Management Benefits Committee reviews benefit plans under collective bargaining agreements with unions, and the Committee is currently reviewing this issue. The District may have to pay dental claims for

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2002

the past four years for retirees up to \$3,000/retiree. There are 400 retirees affected by this increase in dental benefits. Any claims more than four years old will face the statute of limitations and will need to be settled in court. No claims have been filed as of December 13, 2002.

(10) Long-Term Liabilities

The following is a summary of long-term liabilities of the District for the year ended June 30, 2002:

	Balance at July 1, 2001	Additions	Deletions	Balance at June 30, 2002	Due within one year
Refunding certificates of participation	\$ 60,115,000	27,785,000	(2,985,000)	84,915,000	3,635,000
General Obligation Bonds, 2001 Series A	525,000,000	—	—	525,000,000	17,970,000
Revenue bonds	4,066,529	—	(406,653)	3,659,876	406,653
Workers' compensation claims payable	14,261,000	12,664,215	(4,714,215)	22,211,000	4,714,215
General liability	—	1,996,100	(252,100)	1,744,000	252,100
Vacation benefits payable	10,516,369	1,280,140	(716,967)	11,079,542	716,967
Lease purchase financing	8,213,639	1,247,163	(880,296)	8,580,506	727,442
Other liabilities	435,723	—	(435,723)	—	—
Total	\$ 622,608,260	44,972,618	(10,390,954)	657,189,924	28,422,377

(a) Refunding Certificates of Participation

On October 1, 1999, the District issued 1999 energy Retrofit Project Certificates of Participation (COP) in the amount of \$7,450,000 (with an average interest rate of 4.50% at June 30, 2001) evidencing fractional undivided interests of the registered owners thereof in rental payments to be made by the District, pursuant to a Master State and Municipal Lease Purchase Agreement, dated October 1, 1999, between Viron Corporation, as lessor, and the District, as lessee, for use and possession of certain energy retrofit equipment to be installed by the District at Los Angeles City College. Pursuant to the lease agreement, the District will lease the equipment from Viron Corporation for a term of 15 years. The District is required under the lease to pay rental payments for the use and possession of the equipment and to pay the cost of maintenance and repair of the equipment.

On August 13, 1992 and May 6, 1993, the District issued 1992 Series A and 1993 Series A Refunding Certificates of Participation (RCOP) in the amount of \$54,830,000 and \$14,160,000 with an average interest rate of 5.94% and 4.75%, respectively, to advance refund \$16,850,000, \$12,610,000, and \$28,860,000 of outstanding 1989 Series A Certificates of Participation (COP), 1989 Series B COPs, and 1990 Series A COPs with an average interest rate of 7.33%, 7.036%, and 6.287%, respectively. The refunded COPs were previously issued to finance the acquisition of a new Educational Service Center (ESC), the construction of Phase I of the new campus at Mission College, five construction projects at East L.A. College, Southwest College and West L.A. College, plus the acquisition of mainframe and peripheral computer equipment.

The net proceeds of the advance refundings totaling \$64,865,000 (after payment of \$3,745,362 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. Treasury securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2002

all future debt service requirements on the refunded COPs. As a result, the refunded COPs are considered to be defeased in substance, and therefore, the related debt, as well as the trust assets, have been removed from the District's financial statements.

The advance refundings were undertaken in order to achieve debt service savings by utilizing current lower interest rates. In addition, the advance refunding of the 1989 Series A and 1990 Series A COPs delayed principal payments from August 15, 1992 until August 15, 1998 and extends the maturity date to the year 2020.

The 1989 Series B and the 1989 Series A COPs were fully redeemed on August 15, 1997 and August 15, 1999, respectively, and have no interest or principal outstanding as of June 30, 2001. The 1990 Series A COP was fully redeemed on August 15, 2000 and has no interest or principal outstanding as of June 30, 2001.

U.S. Bank was designated as trustee of the RCOPs and assigned the rights to enforce amounts payable by the District under the certificate agreement. All funds held under the trust agreement are invested at the specific instruction of the District.

On July 26, 2001, the District issued 2001 Series A Certificates of Participation (COP) in the amount of \$27,785,000 with an average interest rate of 4.00%. This COP was issued to finance the purchase of the Van de Kamp Property (Property) and construction of a satellite campus on the property for City College.

Debt service requirements to maturity of the RCOPs at June 30, 2002 are as follows:

Year ending June 30	1992 Series A		1993 Series A		1999 Series A		2001 Series A		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2003	\$ 1,490,000	2,606,258	1,325,000	269,831	345,000	329,708	475,000	1,282,861	8,123,658
2004	1,570,000	2,521,323	1,405,000	200,529	360,000	313,845	500,000	1,268,236	8,138,933
2005	1,660,000	2,430,053	1,500,000	124,975	375,000	297,308	515,000	1,253,011	8,155,347
2006	1,755,000	2,331,848	1,600,000	42,800	395,000	279,785	530,000	1,237,336	8,171,769
2007	1,855,000	2,226,694	—	—	410,000	261,065	550,000	1,220,449	6,523,208
2008-2012	11,060,000	9,288,518	—	—	2,370,000	976,834	3,040,000	5,781,951	32,517,303
2013-2017	14,805,000	5,436,750	—	—	2,475,000	244,519	3,735,000	5,067,088	31,763,357
2018-2022	10,375,000	920,950	—	—	—	—	4,725,000	4,042,375	20,063,325
2023-2027	—	—	—	—	—	—	6,030,000	2,704,500	8,734,500
2028-2032	—	—	—	—	—	—	7,685,000	998,125	8,683,125
Total	\$ 44,570,000	27,762,394	5,830,000	638,135	6,730,000	2,703,064	27,785,000	24,855,932	140,874,525

(b) General Obligation Bonds

On April 10, 2001, the voters of the County of Los Angeles passed Proposition A, which included a \$1.2 billion General Obligation Bond measure.

On June 7, 2001, the District issued the 2001 Series A General Obligation Bonds in the amount of \$525,000,000 with an average interest rate of 4.63% maturing in 2026. The proceeds of this first Series of general obligation bonds are to be used to finance the construction, equipping, and improvement of college and support facilities at nine colleges.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2002

Debt service requirements to maturity of the general obligation bonds at June 30, 2002 are as follows:

	2001 Series A		Total
	Principal	Interest	
Year ending June 30			
2003	\$ 17,970,000	26,021,231	43,991,231
2004	23,100,000	25,199,831	48,299,831
2005	10,000,000	24,537,831	34,537,831
2006	3,655,000	24,269,300	27,924,300
2007	4,630,000	24,113,956	28,743,956
2008-2012	40,260,000	116,590,491	156,850,491
2013-2017	78,365,000	102,252,513	180,617,513
2018-2022	134,815,000	73,371,200	208,186,200
2023-2026	212,205,000	28,083,125	240,288,125
Total	\$ <u>525,000,000</u>	<u>444,439,478</u>	<u>969,439,478</u>

(c) Revenue Bonds

On March 1, 1995, the District entered into the contract with the State of California, State Public Works Board, for participation in the sale of Energy and Water Efficiency Revenue Bonds Phase IV, Series 1995A, for funding of energy conservation design and construction projects at Los Angeles Pierce College in the amount of \$4,063,000. Until the termination date on October 1, 2010, the amount of \$285,000 will be withheld from the District's apportionment payments in order to satisfy the District's annual energy service contract obligation due on August 15 each year. At June 30, 2002, \$2,565,000 was outstanding.

On June 1, 1996, the District entered into the contract with the State of California, State Public Works Board, for participation in the sale of Energy and Water Efficiency Revenue Bonds Phase V, Series 1996 A, for funding of energy conservation design and construction projects at Los Angeles Southwest College in the amount of \$1,581,488. Until the termination date on August 1, 2010, the amount of \$121,653 will be withheld from the District's apportionment payments in order to satisfy the District's annual energy service contract obligation due on August 15 each year. At June 30, 2002, the outstanding balance was \$1,094,876.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2002

Debt service requirements to maturity of the revenue bonds at June 30, 2002 are as follows:

	Revenue Bonds		Total
	Principal	Interest	
Year ending June 30			
2003	\$ 406,653	—	406,653
2004	406,653	—	406,653
2005	406,653	—	406,653
2006	406,653	—	406,653
2007	406,653	—	406,653
2008-2012	1,626,611	—	1,626,611
Total	\$ <u>3,659,876</u>	<u>—</u>	<u>3,659,876</u>

(d) Lease Purchase Financing

Debt service requirements to maturity of the lease purchase financing transactions at June 30, 2002 are as follows:

	Principal	Interest	Total
Year ending June 30			
2003	\$ 727,442	453,725	1,181,167
2004	714,590	412,248	1,126,838
2005	668,348	373,383	1,041,731
2006	651,155	337,119	988,274
2007	657,730	302,139	959,869
2008-2012	3,510,237	966,406	4,476,643
2013-2014	1,651,004	111,193	1,762,197
Total	\$ <u>8,580,506</u>	<u>2,956,213</u>	<u>11,536,719</u>

(11) Risk Management

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is self-insured for up to a maximum of \$250,000 for each workers' compensation claim, \$100,000 for each general liability claim up to an amount aggregate of \$350,000; thereafter, self-insured decreases to \$10,000 per each claim up to \$25,000,000 per claim. The District currently reports all of its risk management activities in the statement of net assets. The balance of all outstanding workers' compensation and general liability claims is estimated based on information provided by an outside actuarial study performed in 2002. The amount of the outstanding liability at June 30, 2002 includes estimates of future claim payments for known cases as well as provisions for incurred but not reported claims and adverse development on known cases which occurred through that date.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2002

Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using expected future investment yield assumptions ranging from 4% to 6%.

Changes in the balances of workers' compensation and general liability claims during fiscal year ended June 30, 2002 were as follows:

	Balance at July 1, 2001	Current year claims and changes in estimates	Claim payments	Balance at June 30, 2002
Workers' compensation	\$ 14,261,000	12,664,215	(4,714,215)	22,211,000
General liability	\$ —	1,996,100	(252,100)	1,744,000

During the year ended June 30, 2002, the District made total premium payments of approximately \$665,074 relating to both general liability and property claims.

(12) Subsequent Events

On July 10, 2002, the District issued Refunding Certificates of Participation (COP) in the amount of \$43,650,000 to partially refund the 1992 Series A Certificates of Participation in the amount of \$54,830,000, of which \$38,095,000 was eligible for refunding. These Refunding Certificates were issued as variable rate certificates whose interest is subject to adjustment weekly. The interest is payable semi-annually on the first Wednesday of each February and August beginning August 7, 2002. \$6,475,000 of the \$10,515,000 that was not eligible for refunding remains outstanding for the 1992 COPs.

Concurrent with the sale of the Refunding Certificates, the District entered into an interest rate swap agreement with Salomon Brothers Holding Company Inc., (Salomon Brothers) pursuant to which the District will pay to Salomon Brothers amounts equal to the actual variable rate interest on the Refunding Certificates. In addition to the payment to be made to Salomon Brothers, the District will also pay liquidity fees, remarketing fees, and certain ancillary costs related to the Refunding Certificates.

SUPPLEMENTAL FINANCIAL INFORMATION

LOS ANGELES COMMUNITY COLLEGE DISTRICT

General Fund

Balance Sheet

June 30, 2002

Assets

Cash in County treasury	\$ 38,198,907
Cash in banks	6,202,563
Cash in revolving fund	157,697
Investments	138,047
Accounts, notes, interest and loans receivable, net	29,864,585
Due from other funds	18,378,087
Prepaid expenses and other assets	<u>232,723</u>
Total assets	<u>\$ 93,172,609</u>

Liabilities and Fund Equity

Liabilities:

Accounts payable	\$ 29,145,649
Due to other funds	2,874,904
Amounts held in trusts	454,684
Deferred revenue	9,951,025
General liability claims payable	1,744,000
Workers' compensation claims payable	1,900,000
Other liabilities	<u>743,717</u>
Total liabilities	<u>46,813,979</u>

Fund Equity

Restricted	15,963,714
Unrestricted	<u>30,394,916</u>
Total Fund Equity	<u>46,358,630</u>
Total liabilities and Fund Equity	<u>\$ 93,172,609</u>

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 2002

Revenues:

Federal revenues:

Higher Education Acts	\$ 6,348,458
Job Training Partnership Act	2,570,232
Temporary Assistance for Needy Families (TANF)	958,201
Vocational Education Act	4,882,303
Veterans Education	7,280
College Work Study	1,850,456
Seog	94,651
Pell (Beog)	105,030
Other	125,765
	<hr/>
Total federal revenues	16,942,376

State revenues:

State apportionments	244,217,099
Tax relief subvention	1,414,541
State lottery	12,291,861
Gain/Tanf/Calworks	8,951,879
Extended opportunity program	5,789,597
Matriculation program	6,477,206
Handicapped students – direct excess cost	4,785,598
Telecommunication & Technology	2,542,819
	<hr/>
Total state revenues	286,470,600

Local revenues:

Local property taxes	110,484,564
Interest	3,862,157
Tuition and fees, net of scholarship discounts and allowance	32,253,018
Other	16,569,276
	<hr/>
Total local revenues	163,169,015

Total revenues

466,581,991

Expenditures:

Current:

Certificated salaries	200,127,078
Classified salaries	118,686,655
Employee benefits	66,840,440
Books and supplies	12,429,309
Contract services, student grants, and other operating expenditures	49,840,192
Utilities	5,574,535
Interest	1,612,746
Capital outlay and equipment replacement:	
Buildings	1,544,082
Equipment	18,025,958
	<hr/>
Total expenditures	474,680,995

Deficit of revenues over expenditures:

(8,099,004)

Other financing uses – operating transfers out

(14,767,044)

Net decrease in fund balance

(22,866,048)

Fund balances at July 1, 2001

69,224,678

Fund balances at June 30, 2002

\$ 46,358,630

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Special Revenue Funds
 Combined Balance Sheet
 June 30, 2002

Assets	Special Reserve Fund	Child Development Fund	Bookstore Fund	Cafeteria Fund	Total
Cash in County Treasury	\$ 15,502,673	3,551,600	—	—	19,054,273
Cash in banks	—	37,468	2,837,180	216,742	3,091,390
Cash in Revolving Fund	—	—	204,582	7,884	212,466
Investments	—	—	—	—	—
Accounts, notes, interest and loans receivable, net of allowance for doubtful accounts	13,356,331	484,093	3,165,959	146,803	17,153,186
Due from other funds	8,324,894	118,256	951,978	805,394	10,200,522
Inventory	—	—	8,234,393	79,551	8,313,944
Total assets	\$ 37,183,898	4,191,417	15,394,092	1,256,374	58,025,781
Liabilities and Fund Equity					
Liabilities:					
Accounts payable	\$ 2,785,580	137,338	961,786	46,975	3,931,679
Due to other funds	2,915,456	3,984,743	5,586,061	1,394,487	13,880,747
Total liabilities	5,701,036	4,122,081	6,547,847	1,441,462	17,812,426
Fund equity:					
Reserve for facility improvements and inventory	—	—	3,044,027	—	3,044,027
Reserve for program and capital expenditures	31,482,862	69,336	5,802,218	(185,088)	37,169,328
Total fund equity	31,482,862	69,336	8,846,245	(185,088)	40,213,355
Total liabilities and fund equity	\$ 37,183,898	4,191,417	15,394,092	1,256,374	58,025,781

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Special Revenue Funds

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 2002

	<u>Special Reserve Fund</u>	<u>Child Development Fund</u>	<u>Bookstore Fund</u>	<u>Cafeteria Fund</u>	<u>Total</u>
Revenues:					
Federal revenues:					
Other	\$ 3,221,387	—	—	155,760	3,377,147
Total federal revenues	<u>3,221,387</u>	<u>—</u>	<u>—</u>	<u>155,760</u>	<u>3,377,147</u>
State revenues:					
Community construction act	10,048,973	—	—	—	10,048,973
Deferred maintenance program	4,070,956	—	—	—	4,070,956
Child development program	—	5,402,066	—	—	5,402,066
Other	—	—	—	—	—
Total state revenues	<u>14,119,929</u>	<u>5,402,066</u>	<u>—</u>	<u>—</u>	<u>19,521,995</u>
Local revenues:					
Food service sales	—	—	—	2,127,646	2,127,646
Bookstore sales	—	—	30,254,053	—	30,254,053
Parent's fees	—	135,861	—	—	135,861
Interest	1,293,179	143,370	—	—	1,436,549
Other	13,855,371	15,783	3,777,417	157,659	17,806,230
Total local revenues	<u>15,148,550</u>	<u>295,014</u>	<u>34,031,470</u>	<u>2,285,305</u>	<u>51,760,339</u>
Total revenues	<u>32,489,866</u>	<u>5,697,080</u>	<u>34,031,470</u>	<u>2,441,065</u>	<u>74,659,481</u>
Expenditures:					
Current:					
Certificated salaries	47,354	3,468,477	—	—	3,515,831
Classified salaries	1,099,210	1,228,547	4,046,684	1,237,678	7,612,119
Employee benefits	12,653	782,220	671,357	247,907	1,714,137
Books and supplies	35,282	218,795	24,271,557	1,588,781	26,114,415
Contract services, student grant, and other operating expenditures	31,837,166	617,676	1,327,043	15,626	33,797,511
Utilities	—	300	303,230	18,684	322,214
Other expense	777,900	733,061	—	268,647	1,779,608
Total expenditures	<u>33,809,565</u>	<u>7,049,076</u>	<u>30,619,871</u>	<u>3,377,323</u>	<u>74,855,835</u>
Excess (deficit) of revenues over (under) expenditures	<u>(1,319,699)</u>	<u>(1,351,996)</u>	<u>3,411,599</u>	<u>(936,258)</u>	<u>(196,354)</u>
Other financing sources – operating transfers in	<u>7,780,058</u>	<u>952,267</u>	<u>—</u>	<u>729,823</u>	<u>9,462,148</u>
Net increase (decrease) in fund balances	6,460,359	(399,729)	3,411,599	(206,435)	9,265,794
Fund balances at July 1, 2001	25,022,503	469,065	5,434,646	21,347	30,947,561
Fund balances at June 30, 2002	\$ <u>31,482,862</u>	<u>69,336</u>	<u>8,846,245</u>	<u>(185,088)</u>	<u>40,213,355</u>

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Debt Service Fund

Balance Sheet

June 30, 2002

Assets

Cash held with trustee	\$	57,944,841
Accounts, notes, interest and loans receivable, net of allowance for doubtful accounts		<u>257,799</u>
Total assets	\$	<u><u>58,202,640</u></u>

Liabilities and Fund Equity

Liabilities:

Due to other funds	\$	<u>7,598,664</u>
Total liabilities		<u>7,598,664</u>

Fund equity:

Reserve for refunding certificates of participation		24,569,966
Reserve for capital expenditures		<u>26,034,010</u>
Total fund equity		<u>50,603,976</u>
Total liabilities and fund equity	\$	<u><u>58,202,640</u></u>

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Debt Service Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 2002

Revenue:	
Interest	\$ 1,037,378
Total local revenues	<u>1,037,378</u>
Expenditures:	
Current:	
Contracted services and other operating expenditures	8,194,258
Debt service:	
Principal	2,985,000
Interest	<u>3,977,127</u>
Total expenditures	<u>15,156,385</u>
Deficit of revenues over expenditures	<u>(14,119,007)</u>
Other financing sources	
Operating transfers in	5,304,893
Proceeds from issuance of debt	<u>27,297,924</u>
Total other financing sources	<u>32,602,817</u>
Increase in net assets	<u>18,483,810</u>
Fund balances at July 1, 2001	<u>7,550,200</u>
Fund balances at June 30, 2002	<u>\$ 26,034,010</u>

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Building Fund

Balance Sheet

June 30, 2002

Assets

Cash in County Treasury	\$	16,515,915
Cash in banks		3,004,555
Investments		512,295,000
Accounts, notes, interest, and loans receivable, net of allowance for doubtful accounts		<u>152,132</u>
Total assets	\$	<u><u>531,967,602</u></u>

Liabilities and Fund Equity

Liabilities:		
Accounts payable	\$	5,461,932
Due to other funds		<u>3,405,596</u>
Total liabilities		8,867,528
Fund equity:		
Reserved for capital expenditures		<u>523,100,074</u>
Total fund equity		<u>523,100,074</u>
Total liabilities and fund equity	\$	<u><u>531,967,602</u></u>

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Building Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 2002

Local revenues:	
Interest	\$ <u>24,922,848</u>
Total revenue	
Expenditures:	
Capital outlay and equipment replacement:	
Land	12,100
Buildings	278,793
Construction in progress	<u>26,531,881</u>
Total capital outlay	26,822,774
Total expenditures	<u>26,822,774</u>
Net decrease in fund balance	(1,899,926)
Fund balances at July 1, 2001	<u>525,000,000</u>
Fund balances at June 30, 2002	\$ <u><u>523,100,074</u></u>

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Expendable Trust Fund – Associated Student Organization Funds and Agency Funds

Combined Balance Sheet

June 30, 2002

Assets	East Los Angeles College	Los Angeles City College	Los Angeles Harbor College	Los Angeles Mission College	Los Angeles Pierce College	Los Angeles Southwest College	Los Angeles Trade Technical College	Los Angeles Valley College	West Los Angeles College	Total
Cash in banks	\$ 208,283	162,557	27,223	72,874	85,592	46,358	1,453,752	1,203,785	328,861	3,589,285
Investments	1,195,471	—	378,037	—	607,485	56,798	100,153	1,758	—	2,339,702
Accounts, notes, interest and receivable, net of allowance for doubtful accounts	12,782	11,854	—	—	5,097	2,348	20,110	—	745	52,936
Inventory	—	—	—	—	173,287	—	—	—	—	173,287
Investments in real estate	—	—	—	—	—	48,993	—	—	—	48,993
Capital Assets	31,169	—	—	—	—	—	132,900	181,515	49,819	395,403
Total assets	\$ 1,447,705	174,411	405,260	72,874	871,461	154,497	1,706,915	1,387,058	379,425	6,599,606
Liabilities and Fund Equity										
Liabilities:										
Accounts payable	—	12,130	1,212	—	702	6,119	9,065	—	10,260	39,488
Deferred revenue	12,510	—	—	—	—	—	450	—	—	12,960
Long-term Liabilities (note 2)	—	—	—	—	—	—	224,769	—	—	224,769
Scholarship & trust	1,087,338	764	9,378	19,041	173,081	54,286	503,685	216,426	47,291	2,111,290
Other liabilities	130,931	—	—	53,833	52,436	26,418	—	182,882	176,486	622,986
Total liabilities	1,230,779	12,894	10,590	72,874	226,219	86,823	737,969	399,308	234,037	3,011,493
Fund equity:										
Investment in fixed assets	31,169	—	—	—	173,288	48,994	132,900	181,516	43,613	611,480
Fund balances – designated for future expenditures	185,757	161,517	394,670	—	471,954	18,680	836,046	806,234	101,775	2,976,633
Total fund equity	216,926	161,517	394,670	—	645,242	67,674	968,946	987,750	145,388	3,588,113
Total liabilities and fund equity	\$ 1,447,705	174,411	405,260	72,874	871,461	154,497	1,706,915	1,387,058	379,425	6,599,606

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Expendable Trust Fund – Associated Student Organization Funds and Agency Funds
 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
 Year June 30, 2002

	East Los Angeles College	Los Angeles City College	Los Angeles Harbor College	Los Angeles Mission College	Los Angeles Pierce College	Los Angeles Southwest College	Los Angeles Trade Technical College	Los Angeles Valley College	West Los Angeles College	Total
Revenues:										
Interest	\$ 12,572	1,916	13,429	1,904	23,432	752	—	48,410	5,664	108,079
Other	66,874	145,462	73,497	29,340	152,589	40,059	117,934	60,547	83,181	769,483
	79,447	147,378	86,926	31,244	176,021	40,811	117,934	108,957	88,845	877,562
Total revenues										
Expenditures:										
Contract services and other operating expenditures	50,479	128,745	90,713	93,816	144,745	44,862	63,642	74,391	78,393	769,786
	50,479	128,745	90,713	93,816	144,745	44,862	63,642	74,391	78,393	769,786
Net increase (decrease) in fund balance	28,968	18,633	(3,787)	(62,572)	31,276	(4,051)	54,292	34,566	10,451	107,776
Fund balances at June 30, 2001	187,959	142,883	398,457	62,572	613,966	71,726	914,654	953,184	134,936	3,480,337
Fund balances at June 30, 2002	\$ 216,927	161,516	394,670	—	645,242	67,675	968,946	987,750	145,387	3,588,113

See accompanying independent auditors' report.

OTHER SUPPLEMENTAL INFORMATION

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Organization

June 30, 2002

The Los Angeles Community College District was established on July 1, 1969 and is comprised of an area of approximately 882 square miles located in Los Angeles County. There were no changes in the boundaries of the District during the year. The District currently operates nine colleges as follows:

- East Los Angeles College
- Los Angeles City College
- Los Angeles Harbor College
- Los Angeles Mission College
- Los Angeles Pierce College
- Los Angeles Southwest College
- Los Angeles Trade Technical College
- Los Angeles Valley College
- West Los Angeles College.

The board of trustees for the fiscal year ended June 30, 2002 was comprised of the following members:

Board of Trustees		
Name	Office	Term Expires
Sylvia Scott-Hayes	President	June 2003
Warren T. Furutani	First Vice President	June 2003
Mona Field	Second Vice President	June 2003
Kelly G. Candaele	Member	June 2005
Georgia L. Mercer	Member	June 2003
Nancy S. Pearlman	Member	June 2005
Michael D. Waxman	Member	June 2005
Mary M. Ramos	Student Member	May 2003

Administration

Dr. Mark Drummond, Chancellor
Mr. Peter Landsberger, Senior Vice Chancellor
Dr. Mary E. Lee, Executive Director, Facilities Planning and Development
Ms. Camille Goulet, General Counsel
Ms. Jeanette L. Gordon, Controller

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Organization

June 30, 2002

College Presidents

Mr. Ernest Moreno	East Los Angeles College
Dr. Mary Spangler	Los Angeles City College
Dr. Linda Spink	Los Angeles Harbor College
Dr. Adriana Barrera	Los Angeles Mission College
Mr. Darroch "Rocky" Young	Los Angeles Pierce College
Dr. Audre Levy	Los Angeles Southwest College
Dr. Daniel Castro*	Los Angeles Trade Technical College
Dr. Tyree Weider	Los Angeles Valley College
Mr. Francisco Quiambao	West Los Angeles College

*Interim

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Full Time Equivalent Students and Apprenticeship Clock Hours

Year ended June 30, 2002

The District operates nine community colleges within the County of Los Angeles. The schedule of workload measures for both state residents (program based funding) and nonresidents is as follows:

	<u>Resident reported data</u>	<u>Nonresident reported data</u>
Categories:		
Credit full time equivalent student (FTES):		
Weekly census	65,424	2,591
Daily census	9,251	210
Actual hours of attendance	5,003	55
Independent study/work experience	880	5
Summer intercession	13,032	295
Total	<u>93,590</u>	<u>3,156</u>
Noncredit FTES:		
Actual hours of attendance	6,879	
Independent study/work experience	—	
Summer intercession	905	
Total	<u>7,784</u>	
Fall census credit student headcount	119,433	
Gross square footage – existing facilities	5,006,471	
FTES in leased (or rented) space of less than 100%	1,436	

Apprenticeship clock hours

<u>Reporting periods</u>	<u>Total hours annual report</u>
July 1 – December 31, 2001	33,494
January 1 – April 15, 2002	—
April 16 – June 30, 2002	26,926
	<u>60,420</u>

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Reconciliation of Annual Financial and Budget Report (CCFS 311)

Year ended June 30, 2002

	<u>Balance</u>
June 30, 2002 total net assets per annual financial budget report	\$ 641,501,037
Adjustments and reclassification increasing (decreasing) fund balance:	
Booked to adjust the prior year's fund balance:	
Unrecorded lease expense computed under straight-line method	(8,225,945)
Reserve fund balance for debt service payments	6,451,183
Bookstore facility improvement and inventory reserve	3,044,027
Part-time faculty health insurance reserve	772,346
Adjustment to record Associated Student Organizations' increase in fund balance	3,588,113
To record fixed assets in the general fixed asset account group	604,934,646
Other	<u>(569,450)</u>
June 30, 2002 Unaudited Ending Fund Balance	<u>1,251,495,957</u>
Current period's audit adjustments:	
To properly recognize deferred revenue at June 30, 2002	(1,077,487)
To accrue for four months of interest expense	(1,612,746)
To accrue for additional Proposition A expenses	(1,686,932)
To record the debt service amounts	(650,010,432)
To eliminate the reserve for COPS Proceeds	24,569,966
To record the student loan reserve	(2,408,655)
To recorded current year depreciation expense.	(10,968,462)
To accrue for additional Worker's Compensation liability based on the actuarial study	(4,011,000)
To accrue for general liability based on the actuarial study	(1,744,000)
To record accumulated depreciation	(142,265,932)
To record current year additions to capital assets	51,805,895
To record reduction in capital assets based on the appraisal values	(234,339,147)
To record additional capital leases	(1,549,841)
To adjust the deferred lease payable	3,291,201
To record the revenue and receivable for the FEMA – Hazard Mitigation project as of 6/30/02	934,064
Other adjustments	<u>297,586</u>
Adjusted beginning fund balance	<u>(970,775,922)</u>
June 30, 2002 Audit Adjusted Ending Fund Balance	\$ <u><u>280,720,035</u></u>

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2002

General Fund	Federal CFDA or project number	Revenue recognized			Expenditures
		Federal	State	Total	
U.S. Department of Education:					
Direct programs:					
Higher Education Act:					
Strengthening institutions	84.031	\$ 3,191,267	—	3,191,267	3,191,000
Student support services	84.042	977,086	—	977,086	1,005,123
Upward Bound	84.047	1,909,074	—	1,909,074	1,988,600
Comprehensive Program	84.116	31,853	—	31,853	31,853
Student financial assistance:					
Pell Grant	84.063	105,030	—	105,030	129,697
FSEOG	84.007	94,651	—	94,651	118,006
Federal work-study	84.033	1,850,456	—	1,850,456	2,073,301
Pass-through State:					
Vocational and Applied Technology Education Act:					
Title IC	84.048	4,005,794	—	4,005,794	4,159,924
Title II	84.048	639,000	—	639,000	801,284
Title IB	84.048	237,509	—	237,509	235,312
Subtotal U.S. Department of Education		13,041,720	—	13,041,720	13,734,100
U.S. Department of Labor:					
Pass-through City:					
Welfare to Work Project – 101628	17.253	367,772	—	367,772	359,278
Welfare to Work Project – 101674	17.253	195,496	—	195,496	195,496
Welfare to Work Project – 102585	17.253	73,498	—	73,498	73,498
WTW Child Care Services Promo – 100832	17.253	—	—	—	4,060
WTW Child Care Service Promo – 101664	17.253	376,685	—	376,685	376,685
WIA City of Hawthorne – 00-7059	17.258	—	—	—	124
WIA Catholic Charities – 11-7009	17.258	95,815	—	95,815	95,815
WIA Com Career Title I Dislocated – 101896	17.260	91,116	—	91,116	119,129
WIA Youth Center – 11-7008	17.259	66,376	—	66,376	66,376
WIA Com Career Title I – Adult – 101896	17.258	235,549	—	235,549	235,549
Subtotal pass-through City		1,502,307	—	1,502,307	1,526,010
Pass-through County:					
Welfare to Work Project – CF21927	17.253	84,427	—	84,427	84,427
WIA Community Jobs Project, Probation to Work CG22063	17.260	183,409	—	183,409	120,513
WIA – One Stop Center Adult CG22033	17.258	537,678	—	537,678	543,341
WIA – County One Stop Center Dislocated CG22051	17.260	262,412	—	262,412	265,376
WIA – County One Stop Center – CE21351	17.260	—	—	—	(45,485)
WIA – One Stop Center – CF21783, CF21799	17.260	—	—	—	55,404
Subtotal pass-through County		1,067,926	—	1,067,926	1,023,576
Other WIA Programs	17.250	—	—	—	253
Subtotal U.S. Department of Labor		2,570,233	—	2,570,233	2,549,839
U.S. Department of Health and Human Services:					
Pass-through State:					
Tempory Assistance for Needy Families	93.558	958,201	—	958,201	1,030,511
Pass-through National Collegiate Association:					
National Youth Sports	93.570	77,416	—	77,416	79,908
Subtotal U.S. Department of Health and Human Services		1,035,617	—	1,035,617	1,110,419
National Science Foundation:					
Direct programs:					
Chemical Technology	47.076	23,507	—	23,507	23,507
Advanced Technology Education	47.076	164,425	—	164,425	164,826
Tech Math for Tomorrow	47.076	48,349	—	48,349	48,349
Subtotal National Science Foundation		236,281	—	236,281	236,682
U.S. Department of Housing and Urban Development:					
Direct programs:					
Hispanic Serving Institution	14.514	51,246	—	51,246	51,716
Child Development Work-Study	14.512	—	—	—	29,085
Subtotal U.S. Department of Housing and Urban Development		51,246	—	51,246	80,800
U.S. Department of State-Bureau of Eduational and Cultural Affairs					
TRIO	84.344	—	—	—	881
Subtotal U.S. Dept of State		—	—	—	881
Total federal		16,935,097	—	16,935,097	17,712,721

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2002

	Federal CFDA or project number	Revenue recognized			Expenditures
		Federal	State	Total	
State assistance programs:					
Disabled Students Program and Services		\$ —	4,785,598	4,785,598	5,738,994
State Matriculation		—	6,477,206	6,477,206	5,641,217
Instructional Equipment/Modern Technology:					
One-Time Block Grant		—	1,309,902	1,309,902	5,177,990
Instructional Equipment/Deferred Maintenance		—	100,000	100,000	94,525
Extended Opportunity Program and Services		—	5,789,597	5,789,597	5,627,610
Temporary Assistance Needy Families Programs		—	958,201	958,201	1,030,511
CalWORKS Program, 2000-2001		—	7,993,678	7,993,678	7,614,672
Telecommunication & Technologies		—	2,542,819	2,542,819	2,324,673
Economic Development		—	2,430,238	2,430,238	2,487,353
Fund for Student Success		—	1,043,464	1,043,464	1,088,070
Transfer and Articulation Program		—	169,083	169,083	171,958
Other state assistance programs		—	5,916,048	5,916,048	5,906,737
Total state assistance programs		—	39,515,834	39,515,834	42,904,310
Total General Fund		16,935,097	39,515,834	56,450,931	60,617,031
Special Revenue Fund					
U.S. Department of Agriculture:					
Direct programs – nonmajor programs:					
Summer Food Service	10.555	155,760	—	155,760	144,308
Subtotal U.S. Department of Agriculture		155,760	—	155,760	144,308
U.S. Federal Emergency Management Administration					
Pass-through State:					
Hazard Mitigation Grants	83.548	2,287,323	—	2,287,323	2,371,705
Public Assistance Grants	83.544	934,064	—	934,064	969,975
Total U.S. Federal Emergency Management Administration		3,221,387	—	3,221,387	3,341,680
Total federal		3,377,147	—	3,377,147	3,485,988
State Assistance Programs:					
Child Development Pre-School Care		—	2,374,479	2,374,479	2,248,413
Child Care Food Programs		—	220,256	220,256	220,257
Child Development Services		—	185,457	185,457	190,537
Child Development Block Grant		—	148,405	148,405	133,836
Family Child Care Homes Network		—	691,802	691,802	695,542
Transfer & Articulation Program		—	—	—	8,228
Total state assistance programs		—	3,620,399	3,620,399	3,496,813
Total Special Revenue Fund		3,377,147	3,620,399	6,997,546	6,982,801
Student Financial Aid Fund					
U.S. Department of Education:					
Pell Grant	84.063	51,940,685	—	51,940,685	52,279,556
Direct Loan	84.268	2,938,151	—	2,938,151	2,937,665
Federal Perkins Loan Program	84.038	—	—	—	3,818,281
FSEOG	84.007	1,734,950	—	1,734,950	1,783,552
Total federal		56,613,786	—	56,613,786	60,819,054
State assistance programs:					
CAL grants		—	3,440,254	3,440,254	3,508,407
Extended Opportunity and Services		—	5,285,693	5,285,693	5,342,593
Other programs		—	—	—	—
Total state assistance programs		—	8,725,947	8,725,947	8,851,000
Total Student Financial Aid Fund		56,613,786	8,725,947	65,339,733	69,670,054
Grand total federal		\$ 76,926,030	—	76,926,030	82,017,763
Grand total state assistance programs		\$ —	51,862,180	51,862,180	55,252,123
Grand total All Funds (General, Special Revenue, Financial Aid)		\$ 76,926,030	51,862,180	128,788,210	137,269,886

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Schedule of Expenditures of Federal and State Awards

June 30, 2002

(1) General

The accompanying Schedule of Expenditures of Federal and State Awards presents the activity of all federal and state financial assistance programs of the Los Angeles Community College District. The Los Angeles Community College District reporting entity is defined in the District's basic financial statements. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies is included in the schedule.

(2) Basis of Accounting

The accompanying Schedule of Expenditures of Federal and State Awards is presented using the modified-accrual basis of accounting.

(3) Reconciliation to Financial Statements

Amounts reported in the accompanying schedule agree with the amounts reported in related financial statements, with the exception of state revenues, which can be reconciled to the annual financial report, as follows:

Total state revenues in accompanying schedule	\$ 51,862,180
Add:	
General Fund:	
Basic and equalization aid	242,368,761
State lottery	12,291,861
Tax relief subvention	1,414,540
Other state funds	<u>1,232,150</u>
Total other General Fund revenues	<u>257,307,312</u>
Special Revenue Fund:	
Community College Construction Act	10,048,973
Scheduled Maintenance Program	4,070,956
State share of TANF	958,200
Other state funds	<u>2,239,266</u>
Total other Special Revenue Fund revenues	<u>17,317,395</u>
Total state revenues in fund financial statements	<u>\$ 326,486,887</u>

(4) Loan Advances

For the year ended June 30, 2002, the District advanced loans totaling \$365,431 for the Federal Perkins Loans Program (CFDA Number 84.038). As of June 30, 2002, the District had an outstanding loan balance of Federal Perkins Loans in the amount of \$3,818,281.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Schedule of Expenditures of Federal and State Awards

June 30, 2002

(5) Nursing Student Loans

During the year ended June 30, 2002, the District processed approximately \$39,629 of new loans under the Student Nursing Program. As of June 30, 2002, the District had an outstanding loan balance of Nursing Student Loans in the amount of \$317,557.

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE REQUIREMENTS



355 South Grand Avenue
Suite 2000
Los Angeles, CA 90071-1568

Independent Accountants' Report on State Compliance Requirements

We have examined Los Angeles Community College District's (the District) compliance with the following eleven compliance requirements based on Section 400 (revised July 2001) of the California Community Colleges' Contracted District Audit Manual during the year ended June 30, 2002.

- Salaries of Classroom Instructors (50% law)
- Apportionment for Instructional Service Agreements/Contracts
- Required Data Elements
- Students Actively Enrolled
- Uses of Matriculation Funds
- Allocation of Joint Costs (DSP&S and EOP&S)
- EOP&S Administrator/Director Requirements
- Gann Limit Calculation
- Enrollment Fee
- Economic Development Program (EDP)
- Scheduled Maintenance Program.

Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included 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 examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, the District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2002. However, the results of our examination procedures disclosed one instance of noncompliance with those requirements which are described in the accompanying schedule of state findings and recommendations as findings S-02-01 to S-02-07.

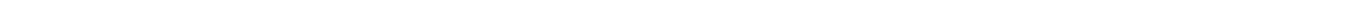


This report is intended solely for the information and use of the District's Board of Trustees, management, and the federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 13, 2002

SCHEDULE OF STATE FINDINGS AND RECOMMENDATIONS



LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of State Findings and Recommendations

Finding S-02-01 – Enrollment Fees

Observation

Consistent with prior years, the District does not report part of fees collected for the summer term as revenues in the following fiscal year. The District reports fees collected for the summer terms as current revenue. It was noted that approximately \$1.08 million of summer fees collected and recorded as current revenue should have been deferred. An adjustment was recorded to properly reflect this amount on the District's basic financial statements.

Recommendation

It is recommended that the District record as current revenue only those fees collected for the summer term that falls within the fiscal year. The remaining portion of the fees collected should be deferred and reported as revenues in the subsequent fiscal year.

District's response

The District concurs with the finding as to the state requirements for deferring all summer enrollment fees in the following years. However, the District disagrees with the state compliance requirement to defer all summer fees collected in the fiscal year following the summer term. The District will implement policies to defer a portion of the summer term fees collected before June 30, where the services are provided on or after July 1.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of State Findings and Recommendations

Finding S-02-02 – Apportionment for Instructional Service Agreements/Contracts – East Los Angeles College

Observation

On reviewing the General Catalog and Schedules of Classes for East Los Angeles College (ELAC) to ensure compliance with the requirement that courses be “. . . open and published in the official general college catalog and/or agenda and listed in the schedules of classes,” KPMG noted that courses offered through East Los Angeles College (ELAC) under contract with the L.A. County Sheriff’s Department are listed in the general catalog but not in the schedules of classes.

Effect

The failure to include the classes in the schedules of classes is an oversight on the part of ELAC, rather than an attempt to deliberately exclude anyone from access to the classes. However, such oversight may put ELAC at the risk of not being compliant with this portion of the requirement.

Recommendation

To avoid any noncompliance, KPMG recommends that all future classes offered under contracts between the Los Angeles Community College District is/college and any outside entity be included in the General Catalog as well as the Schedules of Classes of the appropriate college.

District’s Response

Courses offered through ELAC under the contract with the L.A. County Sheriff’s Department are listed in the general catalog but not in the schedule of courses because they are not available for listing by the deadline for publishing of the semester schedules. Courses are often short-term and are arranged close to, or after the semester begins.

The District’s corrective action plan is to be implemented is as follows:

An advisory box will be inserted in each schedule stating the following:

“Additional Administration of Justice courses have been scheduled after publishing deadlines. A free supplementary list of these courses is available by calling 323-265-8834.”

A schedule supplement will be mailed to each requestor.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of State Findings and Recommendations

Finding S-02-03 – Students Actively Enrolled

Observation

During our review of the alphabetical student list for Fall 01, course Section – C0361, KPMG noted the name “Third,” student with ID number 333-33-3333. Test students (fictitious names with SS numbers such as 111-11-1111) are used to check system functionality and are supposed to be deleted after the test. Third, Student with ID number 333-33-3333 is one such test student that was erroneously not deleted.

Effect

KPMG notes that this failure to delete the test student resulted in one additional student being counted amongst those actively enrolled in the course section. This resulted in one additional FTES reported to the State.

Recommendation

To avoid noncompliance with the Students Actively Enrolled requirement, KPMG recommends that measures be taken by the district to ensure that any fictitious students entered into the system for test purposes be deleted upon completion of such tests. For example, KPMG recommends a periodic search of ID numbers to identify “unusual” ID’s.

District’s Response

The District will conduct periodic checks for “unusual” ID names and numbers to ensure tested students are deleted.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of State Findings and Recommendations

Finding S-02-04 – Students Actively Enrolled

Observation

The total number of students counted for census purposes in the 50 course sections tested was 1,775. This number included thirty-eight (38) students (aggregating 2.14% of our sample) who should have been excluded as they were not actively enrolled.

Effect

As the Los Angeles Community College District (District) receives apportionment based on the number of FTES reported to the state. Over reporting the number of FTES to the state can lead to the incorrect apportionment being made to the District.

Recommendation

To avoid noncompliance with the Students Actively Enrolled requirement, KPMG recommends that measures be taken by the District to ensure that exclusion rosters are properly collected and recorded. Specific instructions should be given to instructors regarding importance of accurate completion and timely submission of the rosters and instruction to those charged with entry of the information regarding effective dates to be used to ensure proper exclusion. Consideration should also be given to maintaining records of exceptions encountered when exclusion rosters are entered automatically through the scanning and batch entry process performed by the District's DEC system.

District's Response

The District has already initiated some changes intended to reduce the back-dating of exclusions. In addition, the District will initiate a further study of how exclusion rosters are collected, recorded and processed. This study will involve Attendance Accounting, Admissions and Records, and Information Technology. Corrective action and staff education will be based on the results of this study. The sections on exclusion rosters in the faculty handbook on attendance accounting and grading procedures will be updated to emphasize the importance of accurate and timely submission of these forms, and improved coordination with Academic Affairs will be enlisted to increase timely collection and processing of exclusions.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of State Findings and Recommendations

Finding S-02-05 – Matriculation – Matching Separate from Categorical Programs

Observation

The District does not separately track the matching requirements for each program in the general ledger. All matching funds for the various programs are included in the general fund. Reports are filed with various state and federal agencies with paper allocations (not recorded in the GL) as to dollar amounts used to meet matching requirements.

Effect

By not tracking the District matching expenditures separately, the District is unable to determine if they are double counting matching requirements with all of their programs with matching requirements being lumped into the general fund

Recommendation

Although it appears that the District meets the matching requirement due to the level of expenditures in the general fund, KPMG recommends that the District develop a system to track the matching requirements for all of its programs separately. This can be done either on an excel spreadsheet, or by utilizing the general ledger account structure within the general fund to segregate the expenses used to meet the various matching requirements.

District's Response

The District believes that the Matriculation matching requirement is in-kind and does not require the District to track such expenses separately.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of State Findings and Recommendations

Finding S-02-06 – Matriculation – Level of Efforts

Observation

The District is required to maintain a level of effort of District matched expenditures greater than the 1986/87 District level or an amount that is greater for each of the last five years. The District does not track the level of expenditures for this program separately in the general ledger and was unable to recreate this information from the paper reports submitted, due to loss of records from the Colleges.

Effect

The District is not able to determine if they are in compliance with the state requirement of level of effort for the Matriculation program.

Recommendation

KPMG recommends that the District monitor this requirement at the District level by working with the Colleges and keeping copies of reports submitted by the Colleges. The District should compute the required match each year to ensure that they will be in compliance with state requirements.

District's Response

The District believes that they are not obligated to separate the matching funds in the Matriculation program, and tracks the District Level of Efforts from the total of the District's Unrestricted General Funds.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of State Findings and Recommendations

Finding S-02-07 – Matriculation – Record Retention

Observation

LACCD district office does not maintain copies of the required state annual reports or supporting documentation for those reports. They rely upon each of the colleges to maintain this documentation. Neither the District office nor the colleges were able to produce requested copies of reports or supporting documentation.

Federal and state funding agencies require recipients to maintain copies of reports and supporting documentation for potential audit purposes for a period of 3-5 years, depending on the agency and program.

Effect

In the event that the state were to audit these programs and the colleges were unable to produce the supporting documents for these reports, state funding to the district could be adversely impacted.

Recommendation

KPMG recommends that the District develop a monitoring program for their Colleges for the programs where they perform their own reporting. They should request that copies (paper or electronic) of all required federal and state reports be sent to the district office to assist in monitor that the campuses are meeting their reporting requirements and not jeopardizing federal or state funding.

District's Response

The District's Education Services Division, Matriculation Office does maintain copies of records for at least a five-year period. The Office was unable to locate some expenditure reports for campuses for prior periods requested, but will attempt to locate the missing expenditure reports as soon as possible.

ADDITIONAL REPORTS OF INDEPENDENT AUDITORS

**Report on Compliance and on Internal Control
over Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards***

The Honorable Board of Trustees
Los Angeles Community College District
Los Angeles, California:

We have jointly audited the financial statements of the Los Angeles Community College District (the District) as of and for the year ended June 30, 2002 and have issued our report thereon, dated December 9, 2002. The District adopted the provisions of Government Accounting Standards Board Statements No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*, No. 38, *Certain Financial Statement Note Disclosures*, and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, effective July 1, 2001.

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.

Compliance

As part of obtaining reasonable assurance about whether the District’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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. However, we noted certain immaterial instances of noncompliance which we have reported to management of the District in a separate letter dated December 13, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. Our consideration of

internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted other matters involving internal control over financial reporting which we have reported to management of the District in a separate letter dated December 13, 2002.

This report is intended solely for the information and use of the District's Board of Trustees, District management, and the federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 13, 2002

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

The Honorable Board of Trustees
Los Angeles Community College District
Los Angeles, California:

Compliance

We have jointly audited the compliance of the Los Angeles Community College District (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items F-02-1 through F-02-13.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be material weakness. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the District's Board of Trustees, District management, and the federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 13, 2002

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2002

(1) Summary of Auditors' Results

- (a) The type of report issued on the financial statements: **Unqualified opinion.**
- (b) Reportable conditions in internal control were disclosed by the audit of the financial statements: **None reported.**

Material weaknesses: **None noted.**

- (c) Noncompliance which is material to the general purpose financial statements: **None noted.**

- (d) Reportable conditions in internal control over major programs: **None reported.**

Material weaknesses: **None noted.**

- (e) The type of report issued on compliance for major programs: **Unqualified opinion.**

- (f) Any audit findings which are required to be reported under Section .510(a) of OMB Circular A-133: **Yes.**

- (g) Major programs:

Student Financial Assistance:

CFDA #84.033 – Federal Work Study Program

CFDA #84.063 – Federal Pell Grant Program

CFDA #84.268 – Federal Direct Loan Program

CFDA #84.007 – Federal Supplemental Educational Opportunity Grants (FSEOG)

CFDA #84.038 – Federal Perkins Loan Program

CFDA #84.048 – Vocational and Technical Education Act

CFDA #83.548 — Hazard Mitigation Grant (Federal Emergency Management Assistance).

- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$2,257,855.**

- (i) Auditee qualified as a low-risk auditee under Section .530 of OMB Circular A-133: **Yes.**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*: None.

(3) Summary of Current Year Findings and Questioned Costs relating to Federal Awards

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2002

Finding F-02-01 Unsupported and Unallowable Construction Costs

Program affected: CFDA #84.048 Vocational and Technical Education Act (VTEA)

Condition

During testwork it was noted that West Los Angeles College charged remodeling/construction costs for the childcare center to the VTEA program. In addition, West Los Angeles College was not able to provide documentation supporting the costs. KPMG also noted that West Los Angeles College did not obtain advance approval for the respective charges.

Criteria

The VTEA program follows the guidelines authorized by the Carl D. Perkins Vocational and Technical Education Act of 1998 (Perkins III). Based on guidance provided from the Chancellor's Office, "Perkins is silent on facilities. The interpretation of the Chancellor's Office is that construction is not an allowable expenditure" unless approved in advance.

Additionally, supporting documentation for expenditures charged to Federal Programs must be maintained for at least a minimum of three years.

Effect

By not maintaining proper supporting documentation nor the appropriate approval of expenditures, as required by the federal regulations, the District runs the risk of the expenditures being disallowed.

Recommendation

The District should obtain written approval in advance for any potential costs that could be disallowed. The District should also maintain supporting documentation for Federal Programs for at least the minimum of three years.

District's Response

The language in the college annual plan did not specify the activities that were to be carried out for the Child Development Center. The District will obtain written approval in advance for any potential costs that could be disallowed. The District will maintain supporting documentation for Federal Programs for at least the minimum of three years.

Questioned Costs

\$12,000

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2002

Finding F-02-02 Inconsistent Program Status Reporting

Program affected: CFDA #84.048 Vocational and Technical Education Act (VTEA)

Condition

During KPMG's review of the program information included in the final reports, several of the Colleges were reporting inconsistent information as to the "status of the activity" and "year the activity will be addressed." For example, the City and Southwest College reported that the status of the activities was already completed but also stated that they will be addressed in 2002-2003 and 2003-2004. Trade Tech and City College both indicated that the status of the activity was continuing but there was no future year indicated, whereby the activity would be performed. Mission College indicated that the activity was continuing and noted that it will be performed in the future years, but did not note that it was performed in the current year or prior years.

Criteria

The "Status of the Activity" states the college needs to indicate with a 1, 2, 3, or 4 weather the activity is Planned, Started, Continuing, and Completed.

The "Year the Activity Would be Performed" states the college needs to indicate with a 1, 2, 3 or 4 weather the activity would be performed in 2000/2001, 2001/2002, 2002/2003 or 2003/2004.

Effect

Inconsistent reports would give inaccurate data to the Chancellor's Office and to the Department of Education.

Recommendation

The District personnel should review the program information reports prepared by the campuses for reasonableness before they are submitted to the Chancellor's Office. The District should also train the Colleges on the correct way to complete the report so that the District can present accurate and consistent reporting.

District's Response

The District has asked the colleges whose reports contained the inconsistencies to amend the section with the correct numbers. The section pertains to the intent of the colleges to continue to offer the program or if the program is completed in the current fiscal year. The colleges have responded, with corrected pages, and the corrected pages will be sent to the State Chancellor's Office to replace the incorrect pages in the report. The errors were errors in the mechanical inputting of the numbers, and two cases, a misunderstanding of how to respond to the reporting form.

The District will review the program reports submitted by the colleges for correct and reasonable responses to eliminate errors before they are submitted to the Chancellor's Office. The District will also conduct additional training sessions with the colleges on the correct way to complete the report to ensure accurate and consistent reporting.

Questioned Costs

None.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2002

Finding F-02-03 Failure to Incorporate Contract Provisions and Clauses on Federal Procurements

Program affected: CFDA #84.048 Vocational and Technical Education Act (VTEA)

Condition

The District's Master Contract Agreements with GST Micro City, TSI Computers, and Office Depot did not contain the following clauses or provisions: certification regarding debarment or suspension, lobbying, compliance with ADA, Drug Free workplace, living wage ordinance, child and support obligations.

Criteria

Federal regulations and Circular A-110 require the inclusion of certain clauses and provisions.

Effect

The District may potentially not be in compliance with the required Federal Contract requirements as determined by Circular A-110.

Recommendation

The District should add the following suggested contract verbiage from appendix A of the Circular A-110 to their vendor contracts:

Debarment and Suspension (E.O.s 12549 and 12689) – No contract shall be made to parties listed on the General Services Administration's List of Parties Excluded from Federal Procurement or Nonprocurement Programs in accordance with E.O.s 12549 and 12689, *Debarment and Suspension*. This list contains the names of parties debarred, suspended, or otherwise excluded by agencies, and contractors declared ineligible under statutory or regulatory authority other than E.O. 12549. Contractors with awards that exceed the small purchase threshold shall provide the required certification regarding its exclusion status and that of its principal employees.

Equal Employment Opportunity – All contracts shall contain a provision requiring compliance with E.O. 11246, *Equal Employment Opportunity*, as amended by E.O. 11375, *Amending Executive Order 11246 Relating to Equal Employment Opportunity*, and as supplemented by regulations at 41 CFR part 60, *Office of Federal Contract Compliance Programs, Equal Employment Opportunity, Department of Labor*.

District's Response

At renewal or upon rebidding, the District will add the recommended two paragraphs to its vendor contracts, subject to review by the District's office of General Counsel. Regarding the paragraph on equal employment opportunity, the District already includes in all its contracts a "nondiscrimination" clause that appears to address the substance of the recommended EEO language.

Questioned Costs

None.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2002

Finding F-02-04 Debarment and Suspension Verification and Certification

Program affected: CFDA #84.048 Vocational and Technical Education Act (VTEA)

Condition

It was noted that the District did not check for suspension or debarment for vendors awarded contracts with Federal Funding. The contracts that are Federally Funded are not properly identified as such so that the District may ensure that proper compliance requirements may be followed.

Criteria

Agencies that receive federal funding shall not award assistance to applicants that are debarred or suspended, or otherwise excluded from or ineligible for participation in federal assistance programs under Executive Order 12549. Agencies shall establish procedures for the effective use of the List of Parties Excluded from Federal Procurement or Nonprocurement programs to assure that they do not award assistance to listed parties in violation of the Executive Order. Agencies shall also establish procedures to provide for effective use and/or dissemination of the list to assure that their grantees and subgrantees (including contractors) at any tier do not make awards in violation of the nonprocurement debarment and suspension common rule.

Effect

If the District were to award a contract to a vendor that had been suspended or debarred from receiving federal funding, the payments made to that vendor and charged to the Federal Program would be disallowed costs.

Recommendation

The District should establish policies for the District Office and the Colleges to check for suspension and debarment with their vendors that provide goods and services for their Federal Programs. We would suggest that LACCD establish a threshold for verifying specific contracts. The current Federal Limit is \$100,000, but since LACCD has many multiple purchases with the same vendors that would aggregate to over \$100,000, we would suggest that the threshold be lowered. They should also consider amending the current contract request forms to include an area for the notation of a Federally Funded Program.

District's Response

Since January of this year, the District's policy has been to check contractor names in awards of \$100,000 and above against the federal EPLS (Excluded Parties List System) database. This policy was established in January 2002. Colleges were not advised to follow this practice as contract awards above the state bid threshold (currently \$58,900) are processed by the District Office.

We acknowledge that the policy to check names against the EPLS has not been followed consistently and will implement measures to correct this, after which we will consider lowering the \$100,000 threshold recommended by the auditor. We also agree with the recommendation to amend the Request for Contact form to include a field for the requestor to denote a federally funded program. We have submitted a request to our systems consultant to make this change to the electronic form.

Questioned Costs

None.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2002

Finding F-02-05 Limit on Administration Costs at 5%

Program affected: CFDA #84.048 Vocational and Technical Education Act (VTEA)

Condition

Per review of the four expense reports submitted by LACCD, the district was over the 5% limit on each report. Two of the reports contained over 7% indirect costs.

The District has been incorrectly calculating the administration cost in the expense reports and in the budget. The amount calculated in the budget was 5.26% of direct costs.

Criteria

There is a 5% limit on administration costs.

Effect

The District is inappropriately reporting administration costs.

Recommendation

When preparing the budget, LACCD should calculate the 5% allowed on the direct costs, not the total award amount (4,005,794/1.05% for direct cost amount). They should also monitor the 5% limit on direct costs on each quarterly financial report submitted.

District's Response

The District will calculate the 5% administrative allowance based on the actual program expenditures instead of the total budgeted expenditures on all future expenditure reports that are prepared.

Questioned Costs

\$9,509

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2002

Finding F-02-06 Procurement Competitive Bidding

Program affected: CFDA #84.048 Vocational and Technical Education Act (VTEA)

Condition

KPMG noted that LA Trade and City College did not maintain supporting documentation, as required by the LACCD internal procurement policies for competitive quotations/bidding for three of the purchased assets tested for the VTEA program.

Criteria

Per OMB Circular A-110, *Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals, and Other Not-for-profit Organizations*, the procurement standards applicable to purchases of equipment require open and free competition, cost and price analysis, and require the District to establish and follow procurement standards that comply with the standards of the federal awarding agency. Procurement records and files for purchases in excess of the small purchase threshold (currently \$25,000) should include the following at a minimum: (a) basis for contractor selection, (b) justification for lack of competition when competitive bids or offers are not obtained, and (c) basis for award cost or price.

Effect

By not maintaining proper documentation as to ensure that compliance is being followed in regards to federally required competitive bidding, expenditures charged to the program may be disallowed.

Recommendation

KPMG recommends that LACCD personnel review the federal procurement requirements and review the current policies as to its competitive quote/bidding for the following:

- Create a required internal form for purchases over the small purchase threshold that contains (a) basis for contractor selection, (b) justification of lack of competition and (c) basis for award cost or price.
- The small purchase threshold for procurement noted in the federal guidelines is \$25,000. The District should consider establishing a method of monitoring the quotes/bids for purchases over that amount to ensure that the colleges are following the established guidelines.

District's Response

The District's current policy is to require written quotes for all purchases between \$5,000 and \$58,900 and to award based on low quote. Requisitions for such purchases are forwarded electronically by the college to one of three regional procurement professionals, whose responsibility it is to analyze the quotes collected by the college and verify award to the low quoter. Purchases above \$58,900 are awarded through sealed bid in accordance with state law and are handled by the District Office.

At the colleges, the Presidents and Vice Presidents of Administration are held responsible for ensuring compliance with this policy. At the District Office, the Senior Vice Chancellor and the Director of Business Services are assigned this responsibility.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2002

We will review practices at the nine colleges to ascertain what methods and forms are being used in fulfillment of this policy. As for monitoring, the District has contracted with KPMG to perform due diligence over the procurement transactions delegated to the colleges since December 2000 and provide recommendations for improving the District's decentralization system. The final report will include guidelines for the District's Internal Audit unit to follow in conducting future reviews.

Questioned Costs

None.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2002

Finding F-02-07 Davis-Bacon Act – Certified Payrolls

Program affected: CFDA #83.548 Hazard Mitigation Grant (FEMA)

Condition

LACCD does not request the Construction Contractors to submit the actual certified payrolls to LACCD. However, District personnel note in their contracts that Construction Contractors are required to follow the prevailing wage rates and that certified payroll records be available upon request.

Criteria

Pursuant to *Code of Federal Regulations, CFR 5.5*, “Contractor shall submit weekly, for each week in which any contract work is performed, a copy of all payrolls to the recipient of the funding. The payrolls submitted shall set out accurately and completely all of the information required to be maintained.” The prime contractor is responsible for the submission of copies of payrolls by all subcontractors.

Each payroll submitted shall be accompanied by a “Statement of Compliance,” signed by the contractor or subcontractor or his or her agent who pays or supervises the payment of the persons employed under the contract and shall certify the payroll.

Recipients are required to keep certified payrolls from their contractors for three years and shall make the records available for inspection, copying, or transcription by authorized representatives of the Department of Labor or FEMA.

If the contractor or subcontractor fails to submit the required records or to make them available, the federal agency may, after written notice to the contractor, sponsor, applicant, or owner, take such action as may be necessary to cause the suspension of any further payment, advance, or guarantee of funds. Furthermore, failure to submit the required records upon request or to make such records available may be grounds for debarment action.

Effect

The District should be requesting the actual copies of payrolls from the contractors. By not requesting the actual payroll copies, the District may not be in compliance with the spirit of the regulation and may be taking the risk that the contractors will not be maintaining the required records, thus causing potential future disallowed costs.

Recommendation

KPMG recommends that the District request contractors to submit certified payrolls for each pay-period. KPMG also recommends that supporting documentation for Federal Programs be maintained for at least the minimum of three years.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2002

District's Response

Currently, on Proposition A Bond project, the District requires the weekly submittal of certified payroll from all contractors. As we do not have an internal labor compliance program, we have depended on the Office of the Labor Commissioner and Department of Industrial Relations to monitor the required compliance to the prevailing wage law. In addition, Proposition 47, which passed in November of 2002, has a labor compliance program requirement. Therefore, we will develop a full labor compliance program prior to that implementation of Proposition 47 projects.

Questioned Costs

None.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2002

Finding F-02-8 Davis Bacon Act - Certified Payrolls and Prevailing Wage Rates

Program affected: CFDA #83.548 Hazard Mitigation Grant (FEMA)

Certified Payrolls

Condition

KPMG noted that the District does not monitor or perform any internal control procedures to ensure that their contractors are in compliance with the Davis-Bacon prevailing wage rates. The District does state in their contracts that the Construction Contractors are required to follow prevailing wage rates and that the Contractor certify when submitting a payment request that they are in compliance, but does not perform any actual tests to confirm this assertion.

Criteria

To provide reasonable assurance that contractors and subcontractors were properly notified of the Davis-Bacon Act, requirements and the required certified payrolls were submitted to the nonfederal entity.

Effect

By not properly monitoring Davis-Bacon requirements, the District is taking the risk of the Contractors being out of compliance of the prevailing wage rates, thus potentially disallowing costs.

Recommendation

KPMG recommends that District management review their current internal control procedures in regards to the Davis-Bacon Act and devise a plan that would include the following:

- Management identify how compliance will be monitored and the related risks of failure to monitor for compliance with Davis-Bacon Act.
- Contractors and subcontractors be required “by contract” to submit certifications and copies of payrolls.
- Contractors and subcontractors payrolls monitored to ensure certified payrolls are submitted.
- Reports from Contractors and subcontractors provide sufficient information to determine if requirements are being met.
- Management reviews to ensure that certified payrolls are properly received.

District's Response

By developing a full labor compliance program, there will be a built-in procedure of testing the prevailing wage rates indicated in the certified payrolls submitted by the contractors and sub-contractors.

Questioned Costs

None.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2002

Prevailing Wage Rates

Condition

KPMG noted the following noncompliance issues regarding prevailing wages with its three Construction Contractors utilized during the fiscal year.

- The first Contractor did not include an increase effective in February 2002 of \$1.32 for the straight-time total hourly rate for the electricians. KPMG also noted on the payroll reporting forms, employees that perform crafts with multiple experience levels that contain increasing hourly rates, based on the level of experience, did not contain the experience level of the employee to be able to determine proper classification for the employee on the prevailing wage rate tables.
- The second contractor was using a rate of \$30.57 with the required rate being \$34.18 for that rate determination period for carpenters (acoustical). This also affected the apprentices, who are paid a percentage of the incorrect base rate.
- The third contractor was paying a straight-time total hourly rate of \$38.03 when the correct prevailing wage rate for electricians was \$40.06 through February 2002 with an increase to \$41.38 through June 2002. KPMG also noted on the employees, who worked in multiple job classifications during the pay period, the payroll reporting form did not identify the number of hours for each craft (only the total), thus we were able to recalculate and verify if the correct amount was paid to the employee. KPMG also noted that this contractor was only paying employees once every two weeks, instead of the required weekly payroll payments to employees.

Criteria

Pursuant to *Code of Federal Regulation, CFR 5.5*, all laborers and mechanics employed, or working upon the site of the work, will be paid unconditionally and not less often than once a week, and without subsequent deduction or rebate or any account. The full amount of wages and bona fide fringe benefits (or cash equivalents thereof) due at time of payment computed at rates not less than those contained the wage determination of the Secretary of Labor, regardless of any contractual relationship which may be alleged to exist between the contractor and such laborers and mechanics.

Effect

By not monitoring its contractors, the District is out of compliance with the Federal Davis Bacon Act.

Recommendation

KPMG would recommend that LACCD require contractors to submit certified payrolls for each weekly pay period. KPMG would also recommend that the District develop and implement a monitoring program of the contractors to discover and resolve any noncompliance wage issues in a timely manner.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2002

District's Response

The District will develop a full labor compliant program for all future federal funded construction projects. There will be built-in procedures of testing the prevailing wage rates in the certificated payrolls submitted by the contractors and subcontractors.

Questioned Costs

None.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2002

Finding F-02-9 Procurement Contract Provisions

Program affected: CFDA #83.548 Hazard Mitigation Grant (FEMA)

Condition

The District's contracts do not contain all of the required federal contract verbiage and clauses as required in construction contracts governed by FEMA. The District does, however, refer to some applicable overlapping California Labor Codes relating to some of the same requirements.

Criteria

As noted in 44 CFR 13.37(i), a grantee's and subgrantee's contracts must contain provisions noted below, as applicable:

All Contracts

- Access by the grantee, the subgrantee, the federal grantor agency, the Comptroller General of the United States, or any of their duly authorized representatives to any books, documents, papers and records, or the contractor which are directly pertinent to that specific contract for the purpose of making audit, examination, excerpts, and transcriptions.
- Retention of all required records for three years after grantees or subgrantees make final payments and all other pending matters are closed.
- Mandatory standards and policies relating to energy efficiency, which are contained in the state energy conservation plan, issued in compliance with the Energy Policy and Conservation Act (Pub L 94-163, 89 Stat 871).
- Notice of awarding agency requirements and regulations pertaining to reporting.
- Notice of awarding agency requirements and regulations pertaining to patent rights with respect to any discovery or invention, which arises or is developed in the course of or under such contract.
- Awarding agency requirements and regulations pertaining to copyrights and rights in data.

All Contracts or Sub-Contracts for Construction or Repair

- Compliance with the Copeland "Anti-Kickback" Act (18 U.S.C. 874) as supplemented in Department of Labor regulations (29 CFR 3).

All Construction Contracts in excess of \$2,000

- Compliance with the Davis-Bacon Act (40 U.S.C. 276a to 276a-7) as supplemented by Department of Labor regulations (29 CFR 5).
- Compliance with Sections 103 and 107 of the Contract Work Hours and Safety Standards Act (40 U.S.C. 327-330), as supplemented by Department of Labor regulations (29 CFR 5).

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2002

All Contractors over \$10,000

- Termination for cause and for convenience by the grantee or subgrantee including the manner by which it will be effected and the basis for settlement.
- Compliance with Executive Order 11246, entitled "Equal Employment Opportunity," as amended by Executive Order 11375, and as supplemented in Department of Labor regulations (41 CFR 60).

Contracts More than the Simplified Acquisition Threshold

- Administrative, contractual, or legal remedies in instances where contractors violate or breach contract terms, and provide for such sanctions and penalties as may be appropriate.

Contracts, Sub-Contracts, and Sub-Grants of amounts in excess of \$100,000

- Compliance with all applicable standards, orders, or requirements issued under section 306 of the *Clean Air Act* (42 U.S.C. 1857(h)), section 508 of the *Clean Water Act* (33 U.S.C. 1368), Executive Order 11738, and Environment Protection Agency regulations (40 CFR 15).

Effect

The LACCD is out of compliance with federal contracting requirements per 44 CFR 13 (i).

Recommendation

KPMG recommends that the District review the current language and provisions in their contracts under federal programs and add the additional required disclosures as applicable to ensure the District's compliance with federal contracting requirements for the FEMA program.

District's Response

If the District will receive future funding from FEMA and/or federal grants for hazard mitigation program, we will implement a procedure that will incorporate requirement provisions of the funding agencies to our contracts with the construction contractors.

Questioned Costs

None.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2002

Finding F-02-10 Procurement Required Federal Contract Language

Program affected: CFDA #83.548 Hazard Mitigation Grant (FEMA)

Condition

KPMG reviewed the District's contracts for general required language in regards to compliance with Federal Procurement Guidelines per Circular A-110. The contracts reviewed contained no mention of the contractor compliance with applicable Federal Statutes such as:

- Certification regarding debarment or suspension
- Lobbying
- Drug free workplace
- Child support obligations.

Criteria

In accordance with Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, contains the following required contract provisions:

Byrd Anti-Lobbying Amendment (31 U.S.C. 1352) – Contractors who apply or bid for an award of \$100,000 or more shall file the required certification. Each tier certifies to the tier above that it will not and has not used federal appropriated funds to pay any person or organization for influencing or attempting to influence an officer or employee of any agency, a member of Congress, officer or employee of Congress, or an employee of a member of Congress in connection with obtaining any federal contract, grant, or any other award covered by 31 U.S.C. 1352. Each tier shall also disclose any lobbying with nonfederal funds that takes place in connection with obtaining any federal award. Such disclosures are forwarded from tier to tier up to the recipient.

Debarment and Suspension (E.O.s 12549 and 12689) – No contract shall be made to parties listed on the General Services Administration's List of Parties Excluded from Federal Procurement or Nonprocurement Programs in accordance with E.O.s 12549 and 12689, *Debarment and Suspension*. This list contains the names of parties debarred, suspended, or otherwise excluded by agencies, and contractors declared ineligible under statutory or regulatory authority other than E.O. 12549. Contractors with awards that exceed the small purchase threshold shall provide the required certification regarding its exclusion status and that of its principal employees.

Effect

The District is not in compliance with the required Federal Contract Requirements as per Circular A-110.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

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Recommendation

KPMG recommends that the District's management review the current language and provisions in their contracts under Federal programs and add the additional required disclosures as applicable to ensure the District's compliance with Federal contracting requirements pursuant to Federal Circular A-110.

District's Response

As in the above, Finding 02-9, we will also incorporate the federal contract language to our future contracts with construction contractors, either in the body of the contract itself, or as a supplemental contract mentioned in the body of the general contract.

Questioned Costs

None.

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Finding F-02-11 Debarment and Suspension Verification and Certification

Program affected: CFDA #83.548 Hazard Mitigation Grant (FEMA)

Condition

We noted that the District's procedures do not document checking for suspension or debarment for vendors awarded contracts funded with Federal money. Contracts that are Federally Funded may not be identified as being federally sponsored, so that the District may ensure that proper compliance requirements may be followed.

Criteria

Agencies that receive federal funding shall not award assistance to applicants that are debarred or suspended, or otherwise excluded from or ineligible for participation in federal assistance programs under Executive Order 12549. Agencies shall establish procedures for the effective use of the List of Parties Excluded from Federal Procurement or Non-procurement programs to assure that they do not award assistance to listed parties in violation of the Executive Order. Agencies are to also establish procedures to provide for effective use and/or dissemination of the list to assure that their grantees and subgrantees (including contractors) at any tier do not make awards in violation of the nonprocurement debarment and suspension common rule.

Effect

If the District were to award a contract to a vendor that had been suspended or debarred from receiving Federal Funding, the payments made to that vendor and charged to the Federal Program may be considered disallowed costs.

Recommendation

KPMG recommends that the District establish formal policies for the District Office and its campuses to check for suspension and debarment with their vendors that provide goods and services for their Federal Programs, and to document their efforts in the contractor's file. We also recommend that the District establish a threshold for verifying specific contracts. The current Federal Limit is \$100,000, but since the District has many multiple purchases with the same vendors that aggregate to over \$100,000, we recommend that the threshold be lowered to an appropriate amount.

District's Response

Presently, before awarding contracts, the District policy is to verify with the state licensing board if the license of the construction contractor is in good standing. However, in the future, for projects involving federal funds, the District will implement additional procedures to determine debarment of the contractors.

Questioned Costs

None.

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Finding F-02-12 Verification of Student Financial Aid Applications

Program affected:

- CFDA #84.048 Federal Perkins Loan
- CFDA #84.007 FSEOG
- CFDA #84.268 Federal Direct Loan
- CFDA #84.063 Federal Pell Grant
- CFDA #84.033 Federal Work Study Program.

Condition

In 2 instances out of 100, it was noted that the student's file did not contain the proper documentation to comply with verification requirements. Specifically, there were two instances in which the number of students in the household was incorrectly noted on the College's verification worksheets.

Criteria

An institution shall require each applicant whose application is selected by the central processor, based on edits specified by the U.S. Department of Education, to verify those items specified in 34 CFR section 668.50. The institution shall also require applicant to verify any information used to calculate the expected family contribution (EFC) it has reason to believe is inaccurate.

Effect

The number of students in the household enrolled in college has a direct affect on the expected family contribution. The EFC is calculated from the internal worksheets that contained less students enrolled in college, which may decrease the amount that the student would have been eligible to receive.

Recommendation

KPMG recommends that the District strengthen its controls over the review of the information included in the verification worksheets selected by the central processor be properly verified. In addition, it is recommended that the District consider delaying the processing of student financial aid payments to a student whose financial aid file does not contain the proper documents for verification.

District's Response

The District concurs with the finding, which is the result of human error. The District believes that these are isolated instances and campuses will review verification procedures to ensure the District will be in compliance with the federal verification guidelines.

Questioned Costs

None.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

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Finding F-02-13 Return of Title IV Funds for Student Financial Aid

Programs affected:

- CFDA #84.048 Federal Perkins Loan
- CFDA #84.007 FSEOG
- CFDA #84.268 Federal Direct Loan
- CFDA #84.063 Federal Pell Grant
- CFDA #84.033 Federal Work Study Program.

Condition

KPMG noted that all five campuses tested applied inconsistent procedures for determining the “withdraw without student notification” date used in the calculation of the percentage of student financial aid earned. KPMG also noted during its attendance procedures performed for State of California Compliance, that certain student drops were not properly recorded into the Districts attendance system.

The District has made the assertion that they are a school “required to take attendance,” but their only required attendance is the one-time census required by the state of California for the total student count used for determination of the State Apportionment Funding. Based on that assertion and when the District does not know the actual drop date of the student, the District is using the one-time census as the withdrawal date for students who do not provide official notification to the institution of their intent to withdraw from the college.

Criteria

As noted in 34 CFR part 668.22, if a recipient of Student Financial Aid (SFA) grant or loan funds withdraws from a school after beginning attendance, the amount of SFA grant or loan assistance earned by the student must be determined. If the amount disbursed to the student is greater than the amount the student earned, unearned funds must be returned. If the amount disbursed to the student is less than the amount the student earned, the student is eligible to receive a post-withdrawal disbursement of the earned aid that was not paid.

An institution is “required to take attendance” if the institution is required to take attendance for some or all of its students by an entity outside of the institution (such as the institution’s accrediting agency or state agency). The regulations do not pertain to schools that are required to take attendance for only a brief portion of time. If an institution is required to take attendance only for a portion of the payment period, it should follow the rules for institutions that are not required to take attendance. Any class attendance records that exist can be used to document a student’s last recorded date of attendance, if needed.

For institutions that are not required to take attendance, a student’s withdrawal date is one of the following:

- The date the student began the withdrawal process prescribed by the institution
- The date the student otherwise gave (in writing or orally) official notification of the institution of his or her intent to withdraw
- If the student never began the withdrawal process or otherwise gave notice of intent to withdraw, the midpoint of the payment period or period of enrollment;
- If the student did not begin the withdrawal process or otherwise given notification (including notice from someone acting on the student’s behalf) to the institution of the intent to withdraw because of circumstances beyond the student’s control (e.g., illness, accident, grievous personal loss, etc.), the date based on the circumstances related to the withdrawal

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- If a student who was granted an approved leave of absence fails to return from the leave or absence, the date the institution determines the approved leave of absence began, or
- If a student takes an unapproved leave of absence, the date the student began the unapproved leave of absence.

Finally, an institution has the option of using as the withdrawal date a date that can be documented based on the student's attendance at an academically related activity. If an institution chooses to use attendance at an academically related activity as the student's date of withdrawal, the institution must document both that the activity is academically related and that the student attended the activity.

Effect

By not consistently and accurately applying the Department of Education guidelines and criteria, the amount of Student Financial Aid that is owed back by the student and institution may be inaccurate. The assertion that the District is a school that is "required to take attendance," when the District doesn't meet the "required to take attendance" criteria as per the U.S. Department of Education, Student Financial Aid Guidelines, causes the percentage earned by certain students to be misstated. The amount of Title IV funds required to be returned by 46 of the 100 students tested would have changed by \$9,127 if the District had followed the guidelines for institutions not required to take attendance.

Recommendation

It is recommended that the District implement policies and procedures that would ensure a consistent policy be followed for all campuses in the calculation for the Title IV amount to be returned. KPMG also recommends that since the District does not regularly take attendance, and only performs actual attendance once per semester ("census"), the District should consider whether it would be a more appropriate methodology to use the criteria for a school that is not required to take attendance and use the "mid-point" of the semester as the date that the student withdrew for the calculation of the Title IV returns.

District's Response

We believe that the District has been making good faith efforts to comply with a complex regulation. We agree that we need to clarify our return of Title IV procedures to ensure that they are consistently applied across the District. It should be noted that because each campus has a separate program participation agreement with the Department of Education, campus procedures are not required to be identical. However, in the best interest of the students and the District, the District will be implementing policies and procedures that would ensure a consistent policy be followed for all campuses.

The Financial Aid Subcommittee will recommend to the Financial Aid Managers committee that we use the mid-point-of-the-semester method for students who cease attendance without notification. The actual drop dates will be used for students who totally withdrew in person, by telephone, or on the internet. This recommendation will be discussed at the next financial aid committee meeting in January 2003.

Questioned Costs

\$9,127.

REPORT TO MANAGEMENT



355 South Grand Avenue
Suite 2000
Los Angeles, CA 90071-1568

December 13, 2002

The Honorable Board of Trustees
Los Angeles Community College District
Los Angeles, California

Distinguished Members of the Board:

We have audited the basic financial statements of the Los Angeles Community College District for the period ended June 30, 2002 and have issued our report thereon, dated December 13, 2002. The District adopted the provisions of Government Accounting Standards Board Statements No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*, No. 38, *Certain Financial Statement Note Disclosures*, and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, effective July 1, 2001.

In planning and performing our audit of the financial statements of the Los Angeles Community College District (the District), we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. We have not considered internal control since the date our report.

During the completion of our procedures, we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized in the following report to management on pages 82 to 86.

* * * * *

These conditions were considered in determining the nature, timing, and extent of the audit tests applied in our audit of the 2002 financial statements dated December 13, 2002. We have not considered internal control since the date of our report.

We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of the District’s Board of Trustees, District management, and others within the organization.

KPMG LLP



LOS ANGELES COMMUNITY COLLEGE DISTRICT
Report to Management

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Current-Year Comments

(1) Capital Assets – Building improvements

Observation

During our review of the District’s capital assets, we noted that approximately 30% (\$56 million) of the total net book value of building and improvements consisted of “miscellaneous” building improvements. The District was unable to match the building improvements against a specific building. It is essential to maintain records to demonstrate accountability for capital assets acquired. The general ledger for capital assets should accurately reflect the physical assets on hand. Capital assets disposed of should be appropriately removed from the general ledger. By not matching building improvements with specific buildings, the District will be unable to remove building improvements from its books in the event that a building is disposed of or demolished

Recommendation

We recommend that the District devise a methodology for allocating the miscellaneous building improvements toward specific buildings.

(2) Recording of Capital leases

Observation

During our testwork, we noted that the District had 40 capital leases that had been recorded by the District as operating leases. The assets had been included in the capital asset inventory but the related obligations had been excluded from the financial statements. An adjustment was recorded to properly state the capital lease obligations on the District’s financial statements.

Recommendation

We recommend that the District develop a method to properly identify and record capital leases. The District should also establish an asset category as “assets held under capital leases” to properly track and report assets held under capital leases obligations.

(3) Accrual of Vacation Leave Earned but Not Taken

Observation

During our testwork we noted that vacation leave earned but not taken had not been properly accrued on the District’s basic financial statements. This error was caused by the calculation of the accrual based on incorrect vacation accrual rates. An adjustment was recorded to properly reflect the vacation accrual as of June 30, 2002.

Recommendation

We recommend that the District perform a calculation at year-end of the amount of vacation accrual that should be recorded on the financial statements. The calculation should be properly reviewed for mathematical accuracy and to ensure that the appropriate rates are being utilized.

(4) Schedule of Federal and State Awards

Observation

We noted that the Schedule of Federal and State awards was not accurately prepared. Numerous programs were reported with the incorrect Catalog of Federal Domestic Assistance (CFDA) number, which is utilized to denote the federal program. In addition, two federal programs that had approximately \$4 million in current year expenditures was entirely excluded from the Schedule of Federal and State Awards. As the determination of the District's major federal programs is based on the amounts and the CFDA numbers reported on the Schedule of Federal and State Awards, incorrect reporting leads to the incorrect determination of the District's major federal programs for the purposes of the Single Audit

Recommendation

We recommend that the District implement a process at year-end to ensure that all federally funded programs with expenditures during the year are properly captured on the Schedule of Federal and State Awards.

Comments Carried Forward from Prior Year

(5) Accurately Record Lease Information in Logbook

(a) *Observation*

During our test work of lease classification, within the procurement key process section, we noted that property leases were not included in the lease log book. As the lease logbook is the District's primary source for information on lease liability, misstatements in the logbook can result in the understatement of lease-related liability. Lack of monitoring leases could lead to inadequate disclosure and financial statement misstatement. In addition, lack of monitoring leases entered into increases the risk that records will be lost and lease payments could be incorrectly made after the lease term.

(b) *Recommendation*

It is recommended that the District enhance procedures to ensure that leases are accurately recorded in the lease logbook. The lease logbook should be reviewed by a supervisor and reconciled to the lease agreements on a regular basis.

(6) Internal Audit Function/Audit & Budget Committee

(a) *Observation*

It was noted that the District's Internal Audit Department presently reports to and acts as a function of the Operations Division and reports directly to the Senior Vice Chancellor. Furthermore, it was noted that the Internal Audit Department does not report to or meet with the Audit & Budget Committee of the Board during the year.

In accordance with auditing standards, the Internal Audit Department should:

- A. Report to an office of sufficient independence and stature to avoid conflicts of independence and to ensure broad audit coverage and adequate consideration of, and actions on, the findings and recommendation of the internal auditors.
- B. Have direct access and regularly report to the District's Board of Trustees and/or Audit & Budget Committee.

The internal auditors should report directly to an Internal Audit Manager, who would then report directly to the Chancellor and/or Board of Trustees or the Audit & Budget Committee.

(b) Recommendation

It is recommended that the District should continually evaluate the role and utilization of the internal audit function. The District should also ensure that the Internal Audit Department report directly to an office, which is independent of the business operations and has had broad enough status to implement action based on internal audit recommendations. Additionally, the internal audit function should take into consideration the following:

The internal auditor should provide internal audit reports to the Chancellor, the Board of Trustees, and the Audit & Budget Committee.

On a monthly or quarterly basis, written activity reports which identify not only internal audits, but also follow-up audits performed and summarize significant findings, related recommendations, and the current status of previously issued recommendations should be presented to the Chancellor, the Board of Trustees, and the Audit and Budget Committee.

Status of Prior – Year Comments

	<u>Not fully implemented</u>	<u>Fully implemented</u>
Accounting		
1. Ensure Proper Accrual of Vacation Leave Earned but not taken	See Comment # 3	
2. Lack of adherence to Capitalization Threshold		X
3. Inconsistency of Warrants Issued		X
4. Lack of Proper Contingency Accrual and Lack of Communication between Risk Management and the Office of General Counsel		X
5. Access to Sensitive Data Should be Regularly Monitored		X
6. Consistent Application of Financial Aid Managers Review		X
7. Accurately Record Lease Information in Logbook	See Comment # 5	
8. Internal Audit Function/Audit Budget Committee	Partially implemented. See Comment #6	
9. Payroll Procedures Manual	Partially implemented	
10. Perform a Physical Inventory of Fixed Assets		X
Information Technology		
<i>Change Maintenance</i>		
11. Users Should Sign-off on Their User Acceptance Tests	Partially implemented	
<i>Security</i>		
12. Terminated User Listing	Partially implemented	
13. Set FILE_ACCESS and FILE_ACCESS:FAILURE Audit Qualifiers on The VMS System	X	
14. Set the CAPTIVE Flag for the VMS BACKUP ID	X	
<i>Operations</i>		
15. Backup Should Be Monitored More Closely	Partially implemented	