

**LONG BEACH
COMMUNITY COLLEGE DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2004

LONG BEACH COMMUNITY COLLEGE DISTRICT

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Long Beach Community College District
Long Beach, California

We have audited the accompanying basic financial statements of the Long Beach Community College District (the District) for the year ended June 30, 2004. 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 audits.

We conducted our audit 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. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Long Beach Community College District as of June 30, 2004, and the respective changes in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 4 through 9 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, consisting 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2004, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

As discussed in Note 1 to the financial statements, the District has adopted the provisions of the Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*, during the year ended June 30, 2004.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are 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, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Waurinek, Irine, Day & Co LLP

Rancho Cucamonga, California
November 5, 2004



Board of Trustees
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Long Beach City College • Long Beach Community College District
4901 East Carson Street • Long Beach, California 90808

This section of our annual financial report offers a narrative overview and analysis of the financial activities of Long Beach Community College District (the District) for the year ended June 30, 2004. This section of our report should be read in conjunction with the basic financial statements, including footnotes.

USING THIS ANNUAL REPORT

As required by accounting principles, the annual report consists of three basic financial statements that provide information on the District's activities as a whole: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

The focus of the Statement of Net Assets is designed to be similar to bottom line results for the District. This statement, for the first time, combines and consolidates current financial resources (net short-term spendable resources) with capital assets and long-term obligations. The Statement of Revenues, Expenses, and Changes in Net Assets focuses on the costs of the District's operational activities, which are supported mainly by property taxes and by State and other revenues. This approach is intended to summarize the cost of various District services to students and the public. The Statement of Cash Flows provides an analysis of the sources and uses of cash within the operations of the District.

FINANCIAL HIGHLIGHTS

- The District's primary funding source is "Program-Based Funding" received from the State of California through the State Chancellor's Office. Program-Based Funding is comprised of State apportionment, local property taxes, and student enrollment fees, which were \$18.00 per unit in the year ending June 30, 2004. The primary basis of this apportionment is the calculation of Full-Time Equivalent Students (FTES). Our Credit FTES were 19,550 for the 2004 fiscal year.
- The District ended the year with an Unrestricted General Fund balance of \$1,605,066; a decrease of \$8,625,799 over the prior year.
- The primary expenditure of the District is for the salaries and benefits of the Academic, Classified, and Administrative salaries of District employees. These costs decreased from the 2002-2003 fiscal year by approximately \$1.3 million due to the impact of the early retirement incentive program.
- The District has begun several construction and modernization projects throughout the District. These projects will be funded through the recently approved general obligation bond program. The District has issued the first \$40 million of bonds and has made substantial progress on pre-construction planning for new bond funded facilities.

LONG BEACH COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2004

- The District provided student financial aid to qualifying students of the District in the amount of approximately \$27.7 million. This represents an increase of approximately \$4.3 million over the 2002-2003 fiscal year. This aid is provided through grants, loans, and fee reductions from the Federal government, State Chancellor's Office, and local funding.

Condensed financial information is as follows:

	Net Assets As of June 30,	
	2004	2003
ASSETS		
CURRENT ASSETS		
Cash and investments	\$ 60,920,593	\$ 61,910,723
Accounts receivable (net)	7,483,175	2,607,235
Other current assets	1,051,479	1,206,592
Total Current Assets	<u>69,455,247</u>	<u>65,724,550</u>
Capital Assets (net)	<u>50,829,913</u>	<u>61,276,195</u>
Total Assets	<u>120,285,160</u>	<u>127,000,745</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	7,650,530	7,744,560
Amounts held in trust for others	2,617,640	304,755
Current portion of long-term debt	3,974,668	3,069,129
Total Current Liabilities	<u>14,242,838</u>	<u>11,118,444</u>
Long-term Debt	<u>75,988,503</u>	<u>43,492,965</u>
Total Liabilities	<u>90,231,341</u>	<u>54,611,409</u>
NET ASSETS		
Invested in capital assets	10,283,036	61,276,195
Restricted	20,123,041	141,695
Unrestricted	(352,260)	10,971,446
Total Net Assets	<u>\$ 30,053,817</u>	<u>\$ 72,389,336</u>

This schedule has been prepared from the District's Statement of Net Assets (page 10), which is presented on an accrual basis of accounting whereby capital assets are capitalized and depreciated, and all liabilities of the District are recognized.

Cash and short-term investments consist primarily of funds held in the Los Angeles County Treasury. The changes in the cash position are explained in the Statement of Cash Flows (page 12).

LONG BEACH COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2004

Many of the unrestricted net assets have been designated by the Board or by contracts for such purposes as Federal and State grants, outstanding commitments on contracts, and general reserves for the ongoing financial health of the District.

Operating Results for the Year Ended June 30,

	<u>2004</u>	<u>2003</u>
Operating Revenues		
Tuition and fees	\$ 6,775,405	\$ 4,558,839
Grants and contracts	46,430,074	36,063,743
Auxiliary sales and charges	6,638,303	7,305,298
Total Operating Revenues	<u>59,843,782</u>	<u>47,927,880</u>
Operating Expenses		
Salaries and benefits	92,007,227	93,914,951
Supplies and maintenance	63,921,990	51,630,436
Depreciation	2,311,310	2,870,046
Total Operating Expenses	<u>158,240,527</u>	<u>148,415,433</u>
Loss on Operations	<u>(98,396,745)</u>	<u>(100,487,553)</u>
Nonoperating Revenues		
State apportionments	39,447,505	71,715,592
Property taxes	29,926,208	7,343,698
State revenues	3,212,375	2,603,873
Net interest and investment income (expense)	(1,624,731)	594,562
Other nonoperating revenues (expense)	1,215,201	(1,032)
Total Nonoperating Revenue	<u>72,176,558</u>	<u>82,256,693</u>
Other Revenues		
State, and local capital income	4,691,117	16,408
Net Decrease in Net Assets	<u><u>\$(21,529,070)</u></u>	<u><u>\$(18,214,452)</u></u>

This schedule has been prepared from the Statement of Revenues, Expenses, and Changes in Net Assets presented on page 11.

The operating revenue for the District is specifically defined as revenues from users of the colleges' facilities and programs. Excluded from the operating revenues are the components of the primary source of District funding - the State apportionment process. These components include the State apportionment and local property taxes. As these sources of revenue are from the general population of the State of California, and not from the direct users of the educational services, they are considered to be nonoperating. As a result, the operating loss of \$98,396,745 is balanced by the other funding sources.

LONG BEACH COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2004

Auxiliary revenue consists of bookstore net revenues. The bookstore is maintained and operated by the Associated Student Body to provide books, supplies, and other items to the students and faculty of the District. The operations are self-supporting through product sales.

Grant and contract revenues relate to student financial aid, as well as specific Federal and State grants received for programs serving the students of the District. These grant and program revenues are restricted as to the allowable expenses related to the programs.

The interest income is primarily the result of cash held at the Los Angeles County Treasury. The interest expense relates to interest payments on the Certificates of Participation and lease commitments.

Statement of Cash Flows for the Year Ended June 30,

	<u>2004</u>	<u>2003</u>
Cash Provided by (Used in)		
Operating activities	\$ (93,089,835)	\$ (91,066,084)
Noncapital financing activities	69,586,945	82,591,836
Capital financing activities	(5,932,741)	44,462,265
Investing activities	<u>17,860,935</u>	<u>(2,903,718)</u>
Net Increase (Decrease) in Cash	(11,574,696)	33,084,299
Cash, Beginning of Year	<u>61,910,723</u>	<u>28,826,424</u>
Cash, End of Year	<u><u>\$ 50,336,027</u></u>	<u><u>\$ 61,910,723</u></u>

The Statement of Cash Flows provides information about cash receipts and payments during the year. This statement also assists users in assessing the District's ability to meet its obligations as they come due and its need for external financing.

The primary operating receipts are student fees and Federal, State, and local grants and contracts. The primary operating expense of the District is the payment of salaries and benefits to faculty and classified support staff, as well as District administrators.

The District issued the first of a series of voter approved General Obligation Bonds in fiscal year 2002-2003. This resulted in an increase in our cash position in the amount of \$40 million. The proceeds from this issuance were deposited in the Los Angeles County Treasury.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had \$50,829,913 in a broad range of capital assets including land, buildings, and furniture and equipment. During the year, the District also continued to modernize and refurbish various sites within the District. These projects are scheduled to be completed in 2005.

LONG BEACH COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2004

Long-term Debt

At the end of this year, the District had \$79,963,171 in long-term debt. During the 2003-2004 fiscal year, the District issued \$2,822,910 for new postemployment benefits.

ECONOMIC FACTORS AFFECTING THE FUTURE OF LONG BEACH COMMUNITY COLLEGE DISTRICT

The economic position of Long Beach Community College District is closely tied to the State of California as State apportionments and property taxes allocated to the District represent approximately 89 percent of the unrestricted resources of the District. The funding formula for the 2005-2006 fiscal year has not been finalized, so there is significant uncertainty about available resources. Nonetheless, the District remains cautiously optimistic that COLA growth and equalization will be funded. Any reductions in the State funding formula will have a serious impact on the financial condition and ongoing operations of the District. The slow-down in the State economy plays a major factor in the State appropriations for higher education. Student tuition may be increasing for the 2005-2006 fiscal year. However, due to the provisions of the funding formula, the District will retain only two percent of this increase.

The District's costs for Workers' Compensation, unemployment, and medical benefit insurance are anticipated to increase. Medical benefit insurance costs for current and retired employees are continuing the upward trend in costs. Management is closely monitoring all of these factors in an effort to control the ultimate impact on the District's financial health.

The District has not settled contracts with faculty and staff bargaining units. Negotiations are currently underway for the 2002-2003, 2003-2004, and 2004-2005 fiscal years. Costs and operational impacts present significant institutional challenges.

Our student enrollment is projected to increase two to three percent in upcoming years. Predictions about future enrollment are difficult to make accurately because various external factors, such as employment options for students, the availability of financial aid and scholarships and CSU and UC admission policies. In addition to the quality instructional programs offered by the college, it is anticipated that our new facilities will attract eligible students.

In 2003-2004, an early retirement incentive program was established to reduce long range salary and benefit costs for 2004-2005. For 2004-2005, approximately 34 tenure trade faculty members will be hired. Costs for these tenure trade faculty members will be absorbed into the budget by reducing the number of adjunct faculty, more efficient operations, and program reductions.

In recent years, the District has made significant capital investment to purchase and install a District-wide enterprise resource planning system. Implementation work was completed in 2003-2004, so the level of ongoing system costs is expected to decrease. Remaining costs would be for the software site license and maintenance contract.

LONG BEACH COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2004

Ongoing construction projects for the new Child Development Center, Industrial Technology Facility, and Learning Resource Center at the Pacific Coast Campus and the South Quad Complex at the Liberal Arts Campus will continue for the next several years. Funding for these projects will be from our general obligation bond and State sources. When the projects are completed, costs will be capitalized and net assets will increase. There will be additional operational costs for the maintenance of the new facilities.

There are currently no other known facts, decisions, or conditions that will have a significant effect on the financial position (net assets) or results of operations (revenues, expenses, and changes in net assets) of the District.

CONTACTING THE DISTRICT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Director of Fiscal Operations at: Long Beach Community College District, 4901 E. Carson Street – Y14, Long Beach, CA 90808, (562) 938-4102, or via email at dlowe@lbcc.edu.

LONG BEACH COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2004

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 4,173,850
Investments	56,746,743
Accounts receivable	7,408,207
Student loans receivable, net	74,968
Prepaid expenses	4,363
Stores inventories	1,047,116
Total Current Assets	69,455,247

NONCURRENT ASSETS

Capital assets, net of depreciation	50,829,913
TOTAL ASSETS	120,285,160

LIABILITIES

CURRENT LIABILITIES

Accounts payable	4,315,548
Accrued interest payable	288,848
Deferred revenue	3,046,134
Amounts held in trust on behalf of others	2,617,640
Notes payable	2,700,000
Lease obligations	536,315
Other long-term liabilities	738,353
Total Current Liabilities	14,242,838

NONCURRENT LIABILITIES

Accrued compensated absences payable	1,771,842
Notes payable	70,100,000
Lease obligations	2,135,998
Other long-term liabilities	1,980,663
Total Noncurrent Liabilities	75,988,503
TOTAL LIABILITIES	90,231,341

NET ASSETS

Invested in capital assets, net of related debt	10,283,036
Restricted for:	
Debt service	3,060,594
Capital projects	15,584,626
Educational programs	1,299,689
Other activities	178,134
Unrestricted	(352,260)
Total Net Assets	\$ 30,053,819

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

