

**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.

Vaurinek, Irine, Day & Co LLP

Rancho Cucamonga, California
November 5, 2004



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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.

LONG BEACH COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2004

OPERATING REVENUES

Tuition and Fees	\$ 11,431,675
Less: Scholarship discount and allowance	(4,656,270)
Net tuition and fees	<u>6,775,405</u>
Grants and Contracts, noncapital:	
Federal	27,837,148
State	18,592,926
Auxiliary Enterprise Sales and Charges	
Bookstore	6,624,264
Internal Service Sales and Charges	<u>14,039</u>
TOTAL OPERATING REVENUES	<u>59,843,782</u>

OPERATING EXPENSES

Salaries	70,617,631
Employee benefits	21,389,596
Supplies, materials, and other operating expenses and services	54,440,336
Equipment, maintenance, and repairs	9,481,654
Depreciation	<u>2,311,310</u>
TOTAL OPERATING EXPENSES	<u>158,240,527</u>

OPERATING LOSS

(98,396,745)

NONOPERATING REVENUES (EXPENSES)

State apportionments, noncapital	39,447,505
Local property taxes	29,926,208
State taxes and other revenues	3,212,375
Investment income, net	746,492
Interest expense on capital related debt	(2,390,616)
Interest income on capital asset-related debt, net	19,393
Transfer from agency fund	(2,531,599)
Other nonoperating revenue	<u>3,746,800</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>72,176,558</u>

INCOME (LOSS) BEFORE OTHER REVENUES AND EXPENSES

(26,220,187)

State revenues, capital	1,061,222
Local revenues, capital	<u>3,629,895</u>
TOTAL INCOME BEFORE OTHER REVENUES AND EXPENSES	<u>4,691,117</u>

NET DECREASE IN NET ASSETS

(21,529,070)

NET ASSETS, BEGINNING OF YEAR - AS RESTATED

51,582,889

NET ASSETS, END OF YEAR

\$ 30,053,819

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

LONG BEACH COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 7,623,053
Grants and contracts	47,781,982
Payments to suppliers	(36,742,785)
Payments to (on behalf of) employees	(90,729,413)
Payments for scholarships and grants	(27,680,368)
Auxiliary enterprise sales and charges	6,657,696
Net Cash Used by Operating Activities	<u>(93,089,835)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State apportionments	36,416,098
Property taxes	29,926,208
State taxes and other apportionments	925,678
Other nonoperating	2,318,961
Net Cash Provided by Noncapital Financing Activities	<u>69,586,945</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Purchase of capital assets	(6,628,883)
State revenue, capital projects	1,061,222
Local revenue, capital projects	3,629,895
Principal paid on capital debt	(1,893,207)
Interest paid on capital debt	(2,101,768)
Net Cash Used by Capital Financing Activities	<u>(5,932,741)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales and maturities of investments	17,522,769
Interest received from investments	338,166
Net Cash Provided by Investing Activities	<u>17,860,935</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS	(11,574,696)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>61,910,723</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 50,336,027</u>

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

LONG BEACH COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS, CONTINUED FOR THE YEAR ENDED JUNE 30, 2004

RECONCILIATION OF NET OPERATING REVENUES TO NET CASH USED BY OPERATING ACTUALS

Operating loss	<u>\$ (98,396,745)</u>
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	2,311,310
Changes in assets and liabilities:	
Receivables, net	1,954,459
Inventories	(188,429)
Prepaid items	343,542
Accounts payable and accrued liabilities	(637,129)
Deferred revenue	419,397
Funds held for others	1,103,760
Total Adjustments	<u>5,306,910</u>
Net Cash Used By Operating Activities	<u><u>\$ (93,089,835)</u></u>

CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:

Cash in banks	\$ 4,173,850
Cash in county treasury	46,162,117
Total Cash and Cash Equivalents	<u><u>\$ 50,335,967</u></u>

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

LONG BEACH COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Long Beach Community College District (the District) was established in 1927 as a political subdivision of the State of California and provides educational services to residents of Los Angeles County. The District operates under a locally elected five-member Board of Trustees form of government, which establishes the policies and procedures by which the District operates. Currently, the District operates two campuses located in Los Angeles, California.

B. Financial Reporting Entity

During the year ended June 30, 2004, the District implemented Governmental Accounting Standard Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations, for which the District is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the District.

As defined by generally accepted accounting principles established by the GASB, the financial reporting entity consist of the primary government (the District), as well as the following component unit:

Long Beach Community College Financing Authority Corporation

The Long Beach Community College Financing Authority Corporation (the Corporation) is a legally separate organization component unit of the District. The Corporation was formed to issue debt specifically for the acquisition and construction of capital assets for the District. The Governing Board of the Corporation is the same as the Governing Board of the District. The financial activity has been "blended" or consolidated within the financial statements as the District as if the activity was the District's. Within the supplementary information section of the report, the activity is included as the Certificates of Participation Capital Projects Fund and the Other Debt Service Fund. Certificates of participation issued by the Corporation are included as long-term liabilities in the government-wide financial statements. Individually-prepared financial statements are not prepared for Long Beach Community College Financing Authority Corporation.

Joint Powers Agencies and Public Entity Risk Pools

The District is associated with two public entity risk pools. These organizations do not meet the criteria for inclusion as component units of the District. Summarized audited financial information is presented in Note 12 to the financial statements. These organizations are:

- Statewide Association of Community Colleges (SWACC)
- Protective Insurance Program for Schools (PIPS)

LONG BEACH COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 90 days of fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include State apportionments, property taxes, certain grants, entitlements, and donations. Revenue from State apportionments is generally recognized in the fiscal year in which it is apportioned from the State. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements.

The accounting policies of the District conform to accounting principles generally accepted in the United State of America as applicable to colleges and universities, as well as those prescribed by the California Community College's Chancellor's Office. The District reports are based on all applicable Governmental Accounting Standards Board (GASB) pronouncements, as well as applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. When applicable, certain prior year amounts have been reclassified to conform to current year presentation.

The financial statements are presented in accordance with the reporting model as prescribed in GASB Statement No. 34, *Basic Financial Statements and Management's Discussions and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussions and Analysis for Public Colleges and Universities*, as amended by GASB Statements No. 37 and 38. The Business type activities model followed by the District requires the following components of the District's financial statements:

- Management's Discussion and Analysis
- Basic Financial Statements for the District as a whole including:
 - Statement of Net Assets
 - Statement of Revenues, Expenses, and Changes in Net Assets
 - Statement of Cash Flows
- Notes to the Financial Statements

LONG BEACH COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

D. The following is a summary of the more significant policies:

- **Cash and Cash Equivalents**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of one year or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

- **Investments**

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and for External Investment Pools*, investments are stated at fair value. Fair value is estimated based on quoted market prices at year-end. Investments for which there are no quoted market prices are not material.

- **Accounts Receivable**

Accounts receivable include amounts due from the Federal, State, and/or local governments or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Accounts receivable also consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of each residing in the State of California. The District does not record an allowance for uncollectible accounts. When receivables are determined to be uncollectible, a direct write-off is recorded.

- **Inventory**

Inventory consists primarily of bookstore merchandise and supplies held for resale to the students and faculty of the colleges. Inventories are stated at cost, utilizing the weighted average method. The cost is recorded as an expense as the inventory is consumed.

- **Capital Assets and Depreciation**

Capital assets are long-lived assets of the District as a whole and include land, buildings, and equipment. The District maintains a capitalization threshold of \$5,000. Assets are recorded at historical cost, or estimated historical cost, when purchased or constructed. The District does not possess any infrastructure. Donated capital assets are recorded at estimated fair market value at the date of donation. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Major outlays for capital improvements are capitalized as Work in Process as the projects are constructed.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 50 years; improvements, 20 years; equipment, 5 years.

- **Accrued Liabilities and Long-term Obligations**

All payables, accrued liabilities, and long-term obligations are reported in the entity-wide financial statements.

LONG BEACH COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

- **Compensated Absences**

Accumulated unpaid vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave.

- **Deferred Revenue**

Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Deferred revenues include (1) amounts received for tuition and fees prior to the end of the fiscal year that are related to the subsequent fiscal year and (2) amounts received from Federal and State grants received before the eligibility requirements are met are recorded as deferred revenue.

- **Net Assets**

GASB Statements No. 34 and No. 35 report equity as "Net Assets." Net assets are classified according to external donor restrictions or availability of assets for satisfaction of District obligations according to the following net asset categories:

- **Invested in Capital Assets, Net of Related Debt** - Capital Assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- **Restricted - Expendable** - Net assets whose use by the District is subject to externally imposed constraints that can be fulfilled by actions of the District pursuant to those constraints or by the passage of time.
- **Unrestricted** - Net assets that are not subject to externally imposed constraints. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first and the unrestricted resources when they are needed.

LONG BEACH COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

- **Operating Revenues and Expenses**

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

Operating revenues - Operating revenues include activities that have the characteristics of exchange transactions, such as, (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most Federal, State and local grants and contracts and Federal appropriations, and (4) interest on institutional student loans.

Nonoperating revenues - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as State appropriations, property taxes, investment income, gifts and contributions, and other revenue sources described in GASB Statement No. 34.

Classification of Expenses - Nearly all the District's expenses are from exchange transactions and are classified as either operating or nonoperating according to the following criteria:

Operating expenses - Operating expenses are necessary costs to provide the services of the District and include employee salaries and benefits, supplies, operating expenses and student financial aid.

Nonoperating expenses - Nonoperating expenses include interest expense and other expenses not directly related to the services of the District.

E. Estimates

The preparation of the 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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

F. Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Los Angeles bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

LONG BEACH COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

G. Federal Financial Assistance Programs

The District participates in federally funded Pell Grants, SEOG Grants, Federal Work-Study, and Stafford Loan programs, as well as other programs funded by the Federal government. Financial aid to students is either reported as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to students in the form of reduced tuition. These programs are audited in accordance with the Single Audit Act Amendments of 1996, and the U.S. Office of Management and Budget's revised Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations," and the related *Compliance Supplement*. During the year ended June 30, 2004, the District distributed \$3,414,707 in direct lending through the U.S. Department of Education. This amount has not been included as revenues or expenses within the accompanying financial statements as the amount was passed directly to qualifying students; however, the amount is included on the Schedule of Federal Financial Assistance.

H. Restatements

During the fiscal year June 30, 2004, the District reconciled the capital assets and determined that library books previously capitalized did not meet the definition of true capital assets. The District had not included all long-term liabilities for the fiscal year ended June 30, 2003. Additionally, the activities and assets associated with the certificates of participation had not been included in the financial reports. These reconciliations resulted in an adjustment of \$(20,806,447) to the beginning net assets as follows:

Beginning Balance Net Assets:	\$ 72,389,336
Capital Assets Adjustment	(14,547,078)
Long-term Debt Adjustment	(33,128,979)
COP Capital Projects Assets	27,426,045
Bond Interest and Redemption Assets	681,290
Associated Student Government	(1,209,125)
Miscellaneous	(28,600)
Total Restatement	<u>(20,806,447)</u>
Restated Beginning Net Assets	<u>\$ 51,582,889</u>

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Policies and Practices

The District is considered to be an involuntary participant in an external investment pool since the District is required to deposit all receipts and collections of monies with their county treasurer. In addition, the District is authorized to maintain deposits with certain financial institutions that are federally insured up to \$100,000. *California Government Code* Sections 16520-16522 require California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an agency's deposits.

LONG BEACH COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

Under provision of the District's investment policy, and in accordance with Sections 53601 and 53602 of the *California Government Code*, the District may also make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

B. Deposits

At June 30, 2004, the carrying amount of the District's deposit was \$4,173,850. The bank balance totaled \$4,192,062. Of this amount, \$638,990 was federally insured by the Federal Deposit Insurance Corporation. The balance of \$3,553,072 is collateralized with securities held by the individual financial institutions.

C. Investments

The District's investments are categorized to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the counterparty's trust department or agent in the District's name holds the securities. Category 3 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent, but not in the District's name. Deposits with the county treasury and investments in the State Treasurer's Investment Pool are not categorized because they do not represent securities, which exist in physical or book entry form. The deposits with county treasury and the State pool's investments are valued using the amortized cost method (which approximates fair value). The fair values were provided by the county and State treasurers for their respective pools.

The investments at June 30, 2004, are as follows:

	<u>Reported Amount</u>	<u>Fair Value</u>
Uncategorized		
Deposits with county treasurer	\$ 46,162,117	\$ 56,613,796
AMBAC Capital Funding	10,584,626	10,584,626
Total	<u>\$ 56,746,743</u>	<u>\$ 67,198,422</u>

LONG BEACH COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 3 - ACCOUNTS RECEIVABLES

Accounts receivables at June 30, 2004, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

The receivables at June 30, 2004 are as follows:

Federal Government	
Categorical aid	\$ 903,932
State Government	
Apportionment	3,031,407
Categorical aid	353,476
Lottery	1,284,359
Other State sources	918,270
Local Government	
Interest	834,742
Other local sources	82,021
Total	<u>\$ 7,408,207</u>
Student receivables	<u>\$ 74,968</u>

LONG BEACH COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Capital Assets Not Being Depreciated				
Land	\$ 5,504,770	\$ -	\$ -	\$ 5,504,770
Construction in progress	-	5,872,409	948,189	4,924,220
Total Capital Assets Not Being Depreciated	5,504,770	5,872,409	948,189	10,428,990
Capital Assets Being Depreciated				
Buildings and improvements	63,333,995	948,189	-	64,282,184
Furniture and equipment	7,916,018	377,337	37,554	8,255,801
Total Capital Assets Being Depreciated	71,250,013	1,325,526	37,554	72,537,985
Total Capital Assets	76,754,783	7,197,935	985,743	82,966,975
Less Accumulated Depreciation				
Buildings and improvements	23,266,056	1,908,660	-	25,174,716
Furniture and equipment	6,559,696	402,650	-	6,962,346
Total Accumulated Depreciation	29,825,752	2,311,310	-	32,137,062
Net Capital Assets	\$ 46,929,031	\$ 4,886,625	\$ 985,743	\$ 50,829,913

Depreciation expense for the year was \$2,311,310.

NOTE 5 - INTERFUND TRANSACTIONS

Operating Transfers

Operating transfers between District governmental funds are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. These operating transfers have been eliminated through consolidation within the entity-wide financial statements.

LONG BEACH COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2004, consisted of the following:

Health and welfare	\$ 1,821,877
Construction	583,309
Other	<u>1,910,362</u>
Total	<u>\$ 4,315,548</u>

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2004, consisted of the following:

Federal financial assistance	\$ 271,519
State categorical aid	1,425,547
Enrollment fees	929,669
Other local	<u>419,399</u>
Total	<u>\$ 3,046,134</u>

LONG BEACH COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 8 - LONG-TERM DEBT

A. Long-Term Debt Summary

The changes in the District's long-term obligations during the year consisted of the following:

	Restated Balance Beginning of Year	Additions	Deductions	Balance End of Year	Due in One Year
Bonds and Notes Payable					
General obligation bonds	\$ 40,000,000	\$ -	\$ 1,500,000	\$ 38,500,000	\$ 2,700,000
Certificates of participation	34,300,000	-	-	34,300,000	-
Total Bonds and Notes Payable	74,300,000	-	1,500,000	72,800,000	2,700,000
Other Liabilities					
Compensated absences	1,781,094	-	9,252	1,771,842	-
Capital leases	3,065,520	-	393,207	2,672,313	536,315
Other postemployment	634,459	2,822,910	738,353	2,719,016	738,353
Total Other Liabilities	5,481,073	2,822,910	1,140,812	7,163,171	1,274,668
Total Long-term Debt	\$ 79,781,073	\$ 2,822,910	\$ 2,640,812	\$ 79,963,171	\$ 3,974,668

B. Debt Maturity

General Obligation Bonds

During the fiscal year ended June 2003, the District issued, through the County of Los Angeles, General Obligation 2002 Election Series A (2003) Bonds totaling \$40,000,000 under a bond authorization approved in a general election held in March 2002. The bonds contain an interest provision ranging from 2.5 percent to 5 percent, depending on the maturity date of the bond. The proceeds of such bonds are to be used for acquisition, construction, furnishing, and equipping of District facilities.

The following summarizes the debt service requirements of the District for such bonds which mature annually through 2028:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2003	Issued	Redeemed	Bonds Outstanding June 30, 2004
April 30, 2003	2028	2.5-5%	\$ 40,000,000	\$ 40,000,000	\$ -	\$ 1,500,000	\$ 38,500,000

LONG BEACH COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2005	\$ 2,700,000	\$ 1,733,088	\$ 4,433,088
2006	950,000	1,665,588	2,615,588
2007	970,000	1,641,838	2,611,838
2008	1,010,000	1,603,038	2,613,038
2009	1,050,000	1,562,638	2,612,638
2010-2014	5,930,000	7,136,186	13,066,186
2015-2019	7,315,000	5,751,088	13,066,088
2020-2024	9,310,000	3,758,250	13,068,250
2025-2028	9,265,000	1,186,500	10,451,500
Total	<u>\$ 38,500,000</u>	<u>\$ 26,038,214</u>	<u>\$ 64,538,214</u>

C. Certificates of Participation

The agreement is between the Long Beach Community College District as the "lessee" and the Long Beach Community College District Financing Corporation as the "lessor" or "Corporation". The Corporation is a legally separate entity which was formed for the sole purpose of the acquisition, construction, and improvement of, among other things, a new Child Development Center, a new Industrial Technology Building, various seismic retrofitting projects and repairs, barrier removals, scheduled maintenance, and hazardous waste remediation projects. The interest rate was calculated using a variable rate (.95%) which was based upon the Dutch Auction rate.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ -	\$ 325,850	\$ 325,850
2006	-	325,850	325,850
2007	425,000	321,813	746,813
2008	450,000	317,538	767,538
2009	500,000	312,788	812,788
2010-2014	3,125,000	1,479,626	4,604,626
2015-2019	4,600,000	1,291,527	5,891,527
2020-2024	6,775,000	1,013,888	7,788,888
2025-2029	10,075,000	603,489	10,678,489
2030-2032	8,350,000	113,050	8,463,050
Total	<u>\$ 34,300,000</u>	<u>\$ 6,105,419</u>	<u>\$ 40,405,419</u>

D. Compensated Absences

The long-term portion of accumulated vacation for the District at June 30, 2004, amounted to \$1,771,842.

LONG BEACH COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

E. Capital Leases

	<u>Energy Savings</u>
Balance, July 1, 2003	\$ -
Additions	3,620,126
Payments	(536,315)
Balance, June 30, 2004	<u>\$ 3,083,811</u>

<u>Year Ending</u> <u>June 30,</u>	<u>Lease</u> <u>Payment</u>
2005	\$ 536,315
2006	536,315
2007	536,315
2008	536,315
2009	536,315
2010-2011	<u>402,236</u>
Total	3,083,811
Less: Amount Representing Interest	(411,498)
Present Value of Minimum Lease Payments	<u>\$ 2,672,313</u>

F. Supplemental Retirement Plan (SRP)

- 03 PROGRAM

As an early retirement incentive, the District agreed to provide a Supplemental Retirement Plan (SRP) to eligible employees who elected early retirement. During the year, expenditures of \$173,771 were recognized for the SRP program. The accumulated future liability for the District at June 30, 2004, amounts to \$460,788.

- 04 PROGRAM

In 2004, the District agreed to provide a Supplemental Retirement Plan (SRP) to eligible employees who elected early retirement. During the year, expenditures of \$564,582 were recognized for the SRP program. The accumulated liability for the District at June 30, 2004, amounts to \$2,258,228.

LONG BEACH COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 9 - POSTEMPLOYMENT BENEFITS

The District provides medical, dental, and vision insurance coverage, as prescribed in the various employee union contracts, to retirees meeting plan eligibility requirements. Eligible employees retiring from the District may become eligible for these benefits when the requirements are met. The eligibility requirement for employees participating in Public Employees' Retirement System (PERS) is a minimum age of 55 and a minimum ten years of continuous service with the District. Additional age and service criteria may be required. The eligibility requirement for employees participating in State Teachers' Retirement System (STRS) is a minimum age of 60 with five years of service, or age 50 with 30 years of service. In addition, the District also has minimum continuous service requirements for retirement that range from three years to ten years and varies by employee class. The District recognizes expenditures for these post employment health benefits on a pay-as-you-go-basis. During the 2004 fiscal year, the District provided insurance premium benefits to 190 retired employees with total expenditures of \$1,493,046.

NOTE 10 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

A. STRS

Plan Description

All certificated employees and those employees meeting minimum standards adopted by the Board of Governors of the California Community Colleges and employed 50 percent or more of a full-time equivalent position participate in the Defined Benefit Plan (DB Plan). Part-time educators hired under a contract of less than 50 percent or on an hourly or daily basis without contract may elect membership in the Cash Balance Benefit Program (CB Benefit Program). Since January 1, 1999, both of these plans have been part of the State Teachers' Retirement Plan (STRP), a cost-sharing, multiple-employer contributory public employee retirement system. The State Teachers' Retirement Law (Part 13 of the *California Education Code*, Section 22000 et seq.) established benefit provisions for STRS. Copies of the STRS annual financial report may be obtained from the STRS Executive Office, 7667 Folsom Boulevard, Sacramento, California 95851.

LONG BEACH COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

The STRP, a defined benefit pension plan, provides retirement, disability, and death benefits, and depending on which component of the STRP the employee is in, post-retirement cost-of-living adjustments may also be offered. Employees in the DB Plan 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 two percent of their final compensation for each year of service. Final compensation is generally defined as the average salary earnable for the highest three consecutive years of service. The plan permits early retirement options at age 55 or as early as age 50 with at least 30 years of service. While early retirement can reduce the two percent age factor used at age 60, service of 30 or more years will increase the percentage age factor to be applied. Disability benefits are generally the maximum of 50 percent of final compensation for most applicants. Eligible dependent children can increase this benefit up to a maximum of 90 percent of final compensation. After five years of credited service, members become 100 percent vested in retirement benefits earned to date. If a member's employment is terminated, the accumulated member contributions are refundable. The features of the CB Benefit Program include immediate vesting, variable contribution rates that can be bargained, guaranteed interest rates, and flexible retirement options. Participation in the CB Benefit Program is optional; however, if the employee selects the CB Benefit Program and their basis of employment changes to half time or more, the member will automatically become a member of the DB Plan.

Funding Policy

Active members of the DB Plan are required to contribute eight percent of their salary while the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2003-2004 was 10.42 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The CB Benefit Program is an alternative STRS contribution plan for instructors. Instructors who choose not to sign up for the DB Plan or FICA may participate in the CB Benefit Program. The District contribution rate for the CB Benefit Program is always a minimum of four percent with the sum of the District and employee contribution always being equal or greater than eight percent.

Annual Pension Cost

The District's total contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002, were \$3,012,891, \$3,030,433, and \$2,785,855, respectively, and equal 100 percent of the required contributions for each year. The State of California may make additional direct payments for retirement benefits to the STRS on behalf of all community colleges in the State. The revenue and expenditures associated with these payments, if any, have not been included in these financial statements.

B. CalPERS

Plan Description

All full-time classified employees participate in the CalPERS, an agent multiple-employer contributory public employee retirement system that act as a common investment and administrative agent for participating public entities within the State of California. The Long Beach Community College District is part of a "cost-sharing" pool with CalPERS. Employees are eligible for retirement as early as age 50 with five years of service. At age 55, the employee is entitled to a monthly benefit of 2.0 percent of final compensation for each year of service credit. Retirement compensation is reduced if the plan is coordinated with Social Security.

LONG BEACH COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

Retirement after age 55 will increase the percentage rate to a maximum of 2.5 percent at age 63 with an increased rate. 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 credited through the date of separation.

The Public Employees' Retirement Law (Part 3 of the *California Government Code*, Section 20000 et seq.) establishes benefit provisions for CalPERS. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members are required to contribute seven percent of their salary (seven percent of monthly salary over \$133.33 if the member participates in Social Security), and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The District's contribution rate to CalPERS for fiscal year 2003-2004 was 2.894 percent beginning with the first pay period ending in July 2002; CalPERS then lowered the rate to 2.771 percent beginning with the first pay period ending in February 2003. On May 16, 2003, CalPERS approved a school employer contribution rate of 10.42 percent beginning with the first pay period that ends in July 2003.

Annual Pension Cost

The District's contributions to CalPERS for fiscal years ending June 30, 2004, 2003, and 2002, were \$2,311,991, \$926,290, and \$1,183,340, respectively, and equaled 100 percent of the required contributions for each year. The actuarial assumptions used as part of the June 30, 2001, actuarial valuation (the most recent actuarial information available) included (a) an 8.25 percent investment rate of return (net of administrative expense); (b) an overall growth in payroll of 3.75 percent annually; and (c) an inflation component of 3.5 percent compounded annually that is a component of assumed wage growth and assumed future post-retirement cost of living increases. The actuarial value of pension fund assets was determined by using a technique to smooth the effect of short-term volatility in the market value of investments.

C. On Behalf Payments

The State of California makes contributions to STRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to STRS which amounted to \$961,870 (2.28 percent) of salaries subject to STRS. A contribution to CalPERS was not required for the year ended June 30, 2004. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures; however, guidance received from the California Department of Education advises local educational agencies not to record these amounts. These amounts also have not been recorded in these financial statements.

LONG BEACH COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 11 - COMMITMENTS AND CONTINGENCIES

A. Grants

The District receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2004.

B. Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2004.

C. Construction Commitments

As of June 30, 2004, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECT	Remaining Construction Commitment	Expected Date of Completion
Program Management - (All Projects)	\$ 5,702,557	07/01/05
Architect Fees - (All Projects)	2,163,051	01/26/05
Miscellaneous	478,462	Various
	<u>\$ 8,344,070</u>	

NOTE 12 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

The District is a member of the Statewide Association of Community Colleges and Protective Insurance Program for Schools Joint Powers Authorities (JPAs). The District pays annual premiums for its property liability, health, and workers' compensation coverage. The relationship between the District and the JPA is such that it is not a component unit of the District for financial reporting purposes.

The JPAs have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, transactions between the JPAs and the District are included in these statements. Audited financial statements are available from the respective entities.

The JPAs had no long-term debt outstanding at June 30, 2004. The District's share of year-end assets, liabilities, or fund equity has not been calculated.

LONG BEACH COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Current year condensed audited financial information is as follows:

A. <u>Entity</u>	Statewide Association of Community Colleges (SWACC)	Protective Insurance Program For Schools (PIPS)
B. <u>Purpose</u>	Property and liability coverage	Workers' compensation coverage
C. <u>Participants</u>	Community Colleges of California	School districts throughout the State of California
D. <u>Governing Board</u>	Made up of member districts	Made up of member districts

E. Condensed Audited Financial Information Follows

	June 30, 2003*	June 30, 2004
Assets	\$ 25,657,868	\$ 573,783
Liabilities	17,952,603	523,978
Fund Equity	\$ 7,705,265	\$ 49,805
Revenues	7,441,018	150,070,575
Expenses	9,337,181	150,020,770
Net Increase in Fund Equity	\$ (1,896,163)	\$ 49,805

* Most recent audited information available.

Neither of the JPAs reported any long-term debt outstanding. The District's share of assets/liabilities has not been calculated.

NOTE 13 - TAX AND REVENUE ANTICIPATION NOTES

On July 1, 2003, the District issued \$5,000,000 Tax and Revenue Anticipation Notes bearing interest at .92 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on June 30, 2004. By April 2004, the District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes.

LONG BEACH COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 14 - SUBSEQUENT EVENTS

The District issued \$5,000,000 of Tax And Revenue Anticipation Notes dated July 1, 2004. The notes mature on June 30, 2005, and yield 1.61 percent interest. The notes were sold to supplement cash flow. Repayment requirements are that a percentage of principal and interest be deposited with the Fiscal Agent each month beginning January 31, 2005, until 100 percent of principal and interest due is on account in April 30, 2005.

NOTE 15 - FUNCTIONAL EXPENSES

	Salaries	Employee Benefits	Supplies, Materials, and Other Expenses and Services	Equipment, Maintenance, and Repairs	Depreciation	Total
Instructional activities	\$ 38,639,014	\$ 9,890,492	\$ 2,517,305	\$ 46,555	\$ -	\$ 51,093,366
Academic support	5,095,300	1,378,866	477,707	17,296	-	6,969,169
Student services	10,254,942	2,675,890	1,335,342	8,910	-	14,275,084
Plant operations and maintenance	3,945,622	1,491,453	2,481,452	15,309	-	7,933,836
Instructional support services	8,681,157	5,047,664	4,049,068	97,109	-	17,874,998
Community services and economic development	2,470,550	586,661	378,871	4,304	-	3,440,386
Ancillary services and auxiliary operations	1,531,046	318,570	580,739	38,338	-	2,468,693
Student Aid	-	-	28,117,535	-	-	28,117,535
Physical property and related acquisitions	-	-	14,502,317	9,253,833	-	23,756,150
Depreciation expense	-	-	-	-	2,311,310	2,311,310
Total	<u>\$ 70,617,631</u>	<u>\$ 21,389,596</u>	<u>\$ 54,440,336</u>	<u>\$ 9,481,654</u>	<u>\$ 2,311,310</u>	<u>\$ 158,240,527</u>

NOTE 16 - NEW ACCOUNTING PRONOUNCEMENT

The Governmental Accounting Standards Board (GASB) issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in June 2004. The pronouncement will require employers providing healthcare benefits to retirees to recognize and account for the costs for providing these benefits on an accrual basis and provide footnote disclose on the progress toward funding the benefits. The implementation date for this pronouncement will be staggered in three phases based upon the entity's revenues, similar to the implementation for GASB Statements No. 34 and 35. GASB Statement No. 45 will be effective for the Long Beach Community College District on July 1, 2007. The effect of this pronouncement on the financial condition of the District has not been determined.

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SUPPLEMENTARY INFORMATION

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LONG BEACH COMMUNITY COLLEGE DISTRICT

DISTRICT ORGANIZATION JUNE 30, 2004

The Long Beach Community College District was established in 1927 and is comprised of an area of approximately 128.6 square miles located in Los Angeles County. There were no changes in the boundaries of the District during the current year.

BOARD OF TRUSTEES

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Mr. Jeffrey A. Kellogg	President	2006
Dr. James J. Clark	Vice President	2006
Mr. Roberto Uranga	Member	2008
Ms. Diane McNinch	Member	2006
Mr. Douglas Otto	Member	2008

ADMINISTRATION

Dr. E. Jan Kehoe	President and District Superintendent
Mr. Victor D. Collins	Executive Vice President, Human Resources
Mr. Eloy Oakley	Vice President/Assistant Superintendent, Administrative Services
Ms. Joyce Black	Vice President, Academic Affairs
Dr. Arthur Byrd	Vice President/Assistant Superintendent, Student Support, Planning, and Research
Ms. Lou Anne Bynum	Vice President/Assistant Superintendent, Economic and Resource Development

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LONG BEACH COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION		
Federal Student Aid [1]		
Pell	84.063	\$ 19,650,013
Pell Administrative Allowance	84.063	45,075
SEOG	84.007	870,076
Federal Work Study	84.033	846,293
FWS Administrative Allowance	84.033	136,317
Stafford Loans	84.268	3,331,474
Perkins	84.038	83,233
Subtotal		<u>24,962,481</u>
Vocational Education Act		
VTEA Title IIC	84.048	816,592
VTEA Tech Prep	84.243	78,939
Subtotal		<u>895,531</u>
Title V - Strengthening Institutions		
TRIO - Student Support Services - Project Launch	84.031	423,712
TRIO - Upward Bound	84.042A	249,488
TRIO - Upward Bound	84.047	524,993
Child Care Access Means Parents in Schools	84.335A	23,384
Subtotal		<u>1,221,577</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE		
Americorps	94.006	<u>26,568</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
TANF	93.558	236,909
Scholarships for Disadvantaged Students	93.925	91,418
Subtotal		<u>328,327</u>
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Hispanic Serving Institutions Assisting Communities	14.514	88,993
		<u>\$ 27,523,477</u>

[1] Tested as a Major Program.

See accompanying note to supplementary information.

LONG BEACH COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2004**

Program	Program Entitlements		
	Current Year	Prior Year	Total Entitlement
GENERAL FUND			
EOPS	\$2,728,669	\$ 79,296	\$2,807,965
Cal Works	1,011,434	-	1,011,434
DSPS/Calworks	239,099	-	239,099
DSPS	911,662	-	911,662
Board Financial Assistance Program Administration	932,915	-	932,915
Staff Development	12,466	-	12,466
Matriculation	761,361	192,958	954,319
Matriculation - Non-credit	104,122	228	104,350
Cooperative Agency Resource Education	404,560	74,010	478,570
Staff Diversity	28,779	-	28,779
Instructional Equipment	450,611	455,203	905,814
California Articulation Numbering Systems	5,000	3,965	8,965
A.I.M.	-	24,909	24,909
Women in Trades	-	27,855	27,855
Foster Care	113,804	-	113,804
MAPP	8,050	-	8,050
ILP	21,090	5,015	26,105
E-step	16,457	-	16,457
KEPS	16,100	8,100	24,200
Lottery	1,177,148	-	1,177,148
DSPS Career in Childcare	176,138	-	176,138
Advance Transportation Technology Training	169,930	43,824	213,754
Workplace Learning Resource	169,930	62,758	232,688
Teacher and Reading Development	78,545	-	78,545
Enrollment Growth Nursing	68,509	93,109	161,618
Center for Trade Development	169,930	77,016	246,946
Nutrition Grant	152,308	72,001	224,309
Cal Grants	2,420,602	-	2,420,602
Telecommunication Technology	64,234	191,061	255,295
Total State Programs			

See accompanying note to supplementary information.

Program Revenues				
Cash Received	Accounts Receivable	Deferred Revenue	Total Revenue	Program Expenditures
\$ 2,063,140	\$ -	\$ 90,588	\$ 1,972,552	\$ 1,972,552
1,011,434	-	-	1,011,434	1,011,434
178,303	60,458	-	238,761	238,761
914,358	-	-	914,358	911,662
932,915	-	125,218	807,697	807,697
12,466	-	-	12,466	12,466
954,319	-	158,284	796,035	796,035
104,350	-	7,913	96,437	96,437
284,846	-	15,254	269,592	267,731
29,544	-	13,362	16,182	16,182
756,434	-	274,744	481,690	481,690
8,965	-	-	8,965	8,966
24,909	-	-	24,909	24,909
27,855	-	-	27,855	27,855
104,396	9,408	-	113,804	113,804
6,281	1,769	-	8,050	8,050
859	21,123	-	21,982	21,982
-	16,457	-	16,457	16,457
-	3,191	-	3,191	3,191
841,978	335,170	438,537	738,611	738,611
134,504	12,946	-	147,450	147,450
213,754	-	-	213,754	213,754
232,689	-	-	232,689	232,689
31,500	43,359	-	74,859	74,859
152,542	9,074	49,882	111,734	111,734
246,899	-	-	246,899	246,899
-	175,691	-	175,691	175,691
2,414,843	-	4,368	2,410,475	2,410,475
271,483	-	247,397	24,086	24,086
<u>\$11,955,566</u>	<u>\$ 688,646</u>	<u>\$1,425,547</u>	<u>\$11,218,665</u>	<u>\$11,214,109</u>

LONG BEACH COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF WORKLOAD MEASURES FOR STATE APPORTIONMENT
ANNUALIZED ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2004**

CATEGORIES	Reported Data	Audit Adjustments	Audited Data
A. <u>Credit Full-Time Equivalent Student (FTES)</u>			
1. Summer	2,155	-	2,155
2. Weekly census	13,707	-	13,707
3. Daily census	5,353	-	5,353
4. Actual hours of attendance	1,321	-	1,321
Subtotal	22,536	-	22,536
B. <u>Noncredit FTES</u>			
1. Summer	208	-	208
2. Actual hours of attendance	1,025	-	1,025
Subtotal	1,233	-	1,233
Total FTES	23,769	-	23,769
C. <u>Basic Skills Courses</u>			
1. Credit			381,715
2. Non credit			27,221
Total Basic Skills FTES			408,936
D. <u>FTES Generated in Leased Space</u>			
			674
E. <u>Gross Square Footage</u>			
Existing facilities			983,466

See accompanying note to supplementary information.

LONG BEACH COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT WITH AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

Summarized below are the fund balance reconciliations between the Annual Financial and Budget Report (CCFS-311) and the audited financial statements.

	<u>Unrestricted General</u>	<u>Child Development</u>	<u>Community Service</u>
FUND BALANCE			
Balance, June 30, 2004, (CCFS-311)	\$ 4,481,848	\$ 177,942	\$ 540,263
Reconciling items	<u>(2,876,782)</u>	<u>192</u>	<u>1,000</u>
Balance, June 30, 2004, Audited Financial Statement	<u>\$ 1,605,066</u>	<u>\$ 178,134</u>	<u>\$ 541,263</u>

See accompanying note to supplementary information.

LONG BEACH COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004**

**Amounts Reported for Governmental Activities in the Statement
of Net Assets are Different Because:**

**Total Fund Balance, Retained Earnings,
and Due to Student Groups:**

General Funds	\$ 2,904,755	
Special Revenue Funds	178,134	
Debt Service Funds	3,060,594	
Capital Project Funds	50,510,062	
Proprietary Funds	2,843,039	
Fiduciary Funds	<u>2,759,341</u>	

Total Fund Balance - All District Funds **\$ 62,255,925**

Capital assets used in governmental activities are not financial resources
and, therefore, are not reported as assets in governmental funds.

The cost of capital assets is	\$82,966,974	
Accumulated depreciation is	(32,137,062)	
Less fixed assets already recorded in the enterprise funds	(162,359)	50,667,553
Amounts held in trust on the behalf of others (Trust and Agency Funds)		(2,617,640)

In governmental funds, unmatured interest on long-term debt is recognized in
the period when it is due. On the government-wide statements, unmatured
interest on long-term debt is recognized when it is incurred. (288,848)

Long-term liabilities at year end consist of:

Bonds payable	38,500,000	
Certificates of participation	34,300,000	
Compensated absences (vacations)	1,771,842	
Capital leases payable	2,672,313	
Special termination benefits payable	<u>2,719,016</u>	<u>(79,963,171)</u>
Total Net Assets		<u><u>\$ 30,053,819</u></u>

See accompanying note to supplementary information.

LONG BEACH COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2004

NOTE 1 - PURPOSE OF SCHEDULES

A. Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

B. Schedule of Expenditures of State Awards

The accompanying schedule of expenditures of State awards includes the State grant activity of the District and is presented on the modified accrual basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

C. Schedule of Workload Measures for State Apportionment Annualized Attendance

Full-Time Equivalent Students (FTES) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to community college districts. This schedule provides information regarding the attendance of students throughout the District.

D. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Form CCFS-311 to the audited financial statements.

E. Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets

This schedule provides a reconciliation of the adjustments necessary to bring the District's fund financial statements, prepared on a modified accrual basis, to the accrual basis required under GASB Statement No. 35.

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ADDITIONAL SUPPLEMENTARY INFORMATION

LONG BEACH COMMUNITY COLLEGE DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2004**

	<u>General Funds</u>		<u>Special Revenue Fund</u>
	<u>General Unrestricted</u>	<u>General Restricted</u>	<u>Child Development</u>
ASSETS			
Cash and cash equivalents	\$ 1,296,889	\$ -	\$ -
Investments	(1,608,387)	1,841,593	177,168
Accounts receivable	5,364,831	1,529,122	5,147
Student loans receivable	70,013	4,955	-
Total Assets	\$ 5,123,346	\$ 3,375,670	\$ 182,315
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Accounts payable	2,588,611	392,791	4,181
Deferred revenue	929,669	1,683,190	-
Total Liabilities	3,518,280	2,075,981	4,181
FUND EQUITY			
Fund Balances			
Reserved	50,000	1,299,689	-
Unreserved			
Designated	1,555,066	-	-
Undesignated	-	-	178,134
Total Fund Equity	1,605,066	1,299,689	178,134
Total Liabilities and Fund Equity	\$ 5,123,346	\$ 3,375,670	\$ 182,315

See accompanying note to additional supplementary information.

Debt Service Funds		Capital Project Funds			Total
Bond Interest and Redemption	COP Debt Service	Capital Outlay Projects	Revenue Bond Construction	COP Capital Projects	Governmental Fund (Memorandum Only)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,296,889
913,436	2,095,887	4,838,516	35,449,199	10,584,626	54,292,038
-	51,271	223,728	110,124	-	7,284,223
-	-	-	-	-	74,968
<u>\$ 913,436</u>	<u>\$ 2,147,158</u>	<u>\$ 5,062,244</u>	<u>\$ 35,559,323</u>	<u>\$ 10,584,626</u>	<u>\$ 62,948,118</u>
-	-	62,244	633,887	-	3,681,714
-	-	-	-	-	2,612,859
-	-	<u>62,244</u>	<u>633,887</u>	-	<u>6,294,573</u>
-	-	-	-	-	1,349,689
-	-	-	-	-	1,555,066
<u>913,436</u>	<u>2,147,158</u>	<u>5,000,000</u>	<u>34,925,436</u>	<u>10,584,626</u>	<u>53,748,790</u>
<u>913,436</u>	<u>2,147,158</u>	<u>5,000,000</u>	<u>34,925,436</u>	<u>10,584,626</u>	<u>56,653,545</u>
<u>\$ 913,436</u>	<u>\$ 2,147,158</u>	<u>\$ 5,062,244</u>	<u>\$ 35,559,323</u>	<u>\$ 10,584,626</u>	<u>\$ 62,948,118</u>

LONG BEACH COMMUNITY COLLEGE DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2004**

	General Funds		Special Revenue Fund
	General Unrestricted	General Restricted	Child Development
REVENUES			
Federal revenues	\$ 742,419	\$ 3,137,574	\$ -
State revenues	49,678,388	7,833,410	113,895
Local revenues	37,420,368	1,663,886	352,745
Total Revenues	87,841,175	12,634,870	466,640
EXPENDITURES			
Current Expenditures			
Academic salaries	39,766,094	2,401,835	19,372
Classified salaries	20,509,264	5,774,514	236,476
Employee benefits	16,857,991	1,582,372	72,963
Books and supplies	1,358,474	811,008	48,311
Services and operating expenditures	5,868,096	655,002	4,243
Capital outlay	531,770	1,464,264	1,582
Debt service - principal	1,131,560	-	-
Debt service - interest and other	143,108	-	-
Total Expenditures	86,166,357	12,688,995	382,947
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,674,818	(54,125)	83,693
OTHER FINANCING SOURCES (USES)			
Operating transfers in	728,644	1,576,045	-
Operating transfers out	(5,868,862)	(631,494)	(50,000)
Other sources	137,752	-	-
Other uses	(5,298,151)	(428,502)	-
Total Other Financing Sources (Uses)	(10,300,617)	516,049	(50,000)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(8,625,799)	461,924	33,693
FUND BALANCE, BEGINNING OF YEAR - RESTATED	10,230,865	837,765	144,441
FUND BALANCE, END OF YEAR	\$ 1,605,066	\$ 1,299,689	\$ 178,134

See accompanying note to additional supplementary information.

Debt Service Funds		Capital Project Funds			Total
Bond Interest and Redemption	COP Debt Service	Capital Outlay Projects	Revenue Bond Construction	COP Capital Projects	Fund (Memorandum Only)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,879,993
-	-	1,061,222	-	-	58,686,915
3,433,877	221,698	80,368	727,064	12,360	43,912,366
<u>3,433,877</u>	<u>221,698</u>	<u>1,141,590</u>	<u>727,064</u>	<u>12,360</u>	<u>106,479,274</u>
-	-	-	-	-	42,187,301
-	-	2,733	-	-	26,522,987
-	-	191	-	-	18,513,517
-	-	663,989	14,111	-	2,895,893
-	-	2,341,919	2,730,430	96,850	11,696,540
-	-	11,983,037	1,750,747	-	15,731,400
1,500,000	-	-	-	-	2,631,560
1,701,731	-	-	-	256,929	2,101,768
<u>3,201,731</u>	<u>-</u>	<u>14,991,869</u>	<u>4,495,288</u>	<u>353,779</u>	<u>122,280,966</u>
232,146	221,698	(13,850,279)	(3,768,224)	(341,419)	(15,801,692)
-	819,008	16,787,444	-	-	19,911,141
-	-	-	-	(16,500,000)	(23,050,356)
-	-	-	-	-	137,752
-	-	-	-	-	(5,726,653)
-	819,008	16,787,444	-	(16,500,000)	(8,728,116)
232,146	1,040,706	2,937,165	(3,768,224)	(16,841,419)	(24,529,808)
681,290	1,106,452	2,062,835	38,693,660	27,426,045	81,183,353
<u>\$ 913,436</u>	<u>\$ 2,147,158</u>	<u>\$ 5,000,000</u>	<u>\$ 34,925,436</u>	<u>\$ 10,584,626</u>	<u>\$ 56,653,545</u>

LONG BEACH COMMUNITY COLLEGE DISTRICT

**PROPRIETARY FUNDS
BALANCE SHEET
JUNE 30, 2004**

	Enterprise Funds			Internal Service Fund
	Bookstore	Community Service	Total	
ASSETS				
Cash and cash equivalents	\$ 1,196,864	\$ -	\$ 1,196,864	\$ 745
Investments	-	481,100	481,100	249,036
Accounts receivable	38,298	60,993	99,291	993
Prepaid expenses	4,363	-	4,363	-
Stores inventories	1,047,116	-	1,047,116	-
Furniture and equipment (net)	162,360	-	162,360	-
Total Assets	2,449,001	542,093	2,991,094	250,774
LIABILITIES AND FUND EQUITY				
LIABILITIES				
Accounts payable	388,587	830	389,417	9,412
Total Liabilities	388,587	830	389,417	9,412
FUND EQUITY				
Retained earnings	2,060,414	541,263	2,601,677	241,362
Total Liabilities and Fund Equity	\$ 2,449,001	\$ 542,093	\$ 2,991,094	\$ 250,774

See accompanying note to additional supplementary information.

LONG BEACH COMMUNITY COLLEGE DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2004**

	Enterprise Funds			Internal Service Fund
	Bookstore	Community Service	Total	
OPERATING REVENUES				
Sales revenues	\$6,624,264	\$ -	\$6,624,264	\$ -
OPERATING EXPENSES				
Classified salaries	1,661,349	234,639	1,895,988	20,607
Employee benefits	-	44,308	44,308	8,861
Books and supplies	4,887,224	21,785	4,909,009	3,818
Services and other operating expenditures	636,450	351,577	988,027	531,362
Total Operating Expenses	7,185,023	652,309	7,837,332	564,648
Operating Income (Loss)	(560,759)	(652,309)	(1,213,068)	(564,648)
NONOPERATING REVENUES (EXPENSES)				
Interest income	-	1,608	1,608	7,482
Miscellaneous revenues	172,431	612,548	784,979	14,039
Operating transfers in	-	-	-	550,000
Operating transfers out	-	(47,150)	(47,150)	-
Total Nonoperating Revenues (Expenses)	172,431	567,006	739,437	571,521
NET INCOME (LOSS)	(388,328)	(85,303)	(473,631)	6,873
RETAINED EARNINGS, BEGINNING OF YEAR	2,448,742	626,566	3,075,308	234,489
RETAINED EARNINGS, END OF YEAR	\$2,060,414	\$ 541,263	\$2,601,677	\$241,362

See accompanying note to additional supplementary information.

LONG BEACH COMMUNITY COLLEGE DISTRICT

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2004

	Enterprise Funds			Internal Service Fund
	Community			
	Bookstore	Service	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from sales	\$ 6,624,264	\$ -	\$ 6,624,264	\$ -
Cash payments to employees for services	(1,939,138)	(278,947)	(2,218,085)	(29,468)
Cash payments for insurance claims	-	-	-	(521,978)
Cash payments to suppliers for goods and services	(4,887,224)	(21,785)	(4,909,009)	(3,818)
Cash payments for other operating expenses	(318,701)	(415,029)	(733,730)	-
Net Cash Flows from Operating Activities	(520,799)	(715,761)	(1,236,560)	(555,264)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Nonoperating revenues	172,431	612,548	784,979	14,039
Cash received from assessments made to other funds	-	-	-	550,000
Operating transfers to other funds	-	(47,150)	(47,150)	-
Net Cash Flows from Noncapital Financing Activities	172,431	565,398	737,829	564,039
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	-	1,608	1,608	7,482
Net Cash Flows from Investing Activities	-	1,608	1,608	7,482
Net increase (decrease) in cash and cash equivalents	(348,368)	(148,755)	(497,123)	16,257
Cash and cash equivalents - Beginning	1,545,232	629,855	2,175,087	233,524
Cash and cash equivalents - Ending	\$ 1,196,864	\$ 481,100	\$ 1,677,964	\$ 249,781
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:				
Operating loss	\$ (560,759)	\$ (652,309)	\$ (1,213,068)	\$ (564,648)
Changes in assets and liabilities:				
Receivables	(4,415)	(60,993)	(65,408)	(28)
Prepaid expense	1,498	(2,459)	(961)	-
Inventories	(188,429)	-	(188,429)	-
Capital assets	(31,831)	-	(31,831)	-
Accrued liabilities	263,137	-	263,137	9,412
NET CASH USED BY OPERATING ACTIVITIES	\$ (520,799)	\$ (715,761)	\$ (1,236,560)	\$ (555,264)

See accompanying note to additional supplementary information.

LONG BEACH COMMUNITY COLLEGE DISTRICT

FIDUCIARY FUNDS

BALANCE SHEET

JUNE 30, 2004

	Associated Students Government	Student Financial Aid	Retiree Benefits	Total
ASSETS				
Cash and cash equivalents	\$ 1,679,352	\$ -	\$ -	\$ 1,679,352
Investments	-	680,986	1,043,583	1,724,569
Accounts receivable	-	21,837	1,863	23,700
Total Assets	<u>\$ 1,679,352</u>	<u>\$ 702,823</u>	<u>\$ 1,045,446</u>	<u>\$ 3,427,621</u>
LIABILITIES AND FUND EQUITY				
LIABILITIES				
Accounts payable	7,158	227,847	-	235,005
Deferred revenue	100,000	333,275	-	433,275
Total Liabilities	<u>107,158</u>	<u>561,122</u>	<u>-</u>	<u>668,280</u>
FUND EQUITY				
Fund Balances				
Unreserved				
Undesignated	1,572,194	141,701	1,045,446	2,759,341
Total Fund Equity	<u>1,572,194</u>	<u>141,701</u>	<u>1,045,446</u>	<u>2,759,341</u>
Total Liabilities and Fund Equity	<u>\$ 1,679,352</u>	<u>\$ 702,823</u>	<u>\$ 1,045,446</u>	<u>\$ 3,427,621</u>

See accompanying note to additional supplementary information.

LONG BEACH COMMUNITY COLLEGE DISTRICT

FIDUCIARY FUNDS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE**

FOR THE YEAR ENDED JUNE 30, 2004

	<u>Associated Students Government</u>	<u>Student Financial Aid</u>	<u>Retiree Benefits</u>	<u>Total</u>
REVENUES				
Federal revenues	\$ -	\$23,957,155	\$ -	\$ 23,957,155
State revenues	-	3,627,113	-	3,627,113
Local revenues	903,733	6	6,893	910,632
Total Revenues	<u>903,733</u>	<u>27,584,274</u>	<u>6,893</u>	<u>28,494,900</u>
EXPENDITURES				
Current Expenditures				
Employee benefits	-	-	1,493,046	1,493,046
Services and operating expenditures	845,419	8,666	-	854,085
Total Expenditures	<u>845,419</u>	<u>8,666</u>	<u>1,493,046</u>	<u>2,347,131</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>58,314</u>	<u>27,575,608</u>	<u>(1,486,153)</u>	<u>26,147,769</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	104,766	2,531,599	2,636,365
Other uses	-	(27,680,368)	-	(27,680,368)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(27,575,602)</u>	<u>2,531,599</u>	<u>(25,044,003)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	58,314	6	1,045,446	1,103,766
FUND BALANCE, BEGINNING OF YEAR	1,513,880	141,695	-	1,655,575
FUND BALANCE, END OF YEAR	<u>\$1,572,194</u>	<u>\$ 141,701</u>	<u>\$1,045,446</u>	<u>\$ 2,759,341</u>

See accompanying note to additional supplementary information.

LONG BEACH COMMUNITY COLLEGE DISTRICT

NOTE TO ADDITIONAL SUPPLEMENTARY INFORMATION JUNE 30, 2004

NOTE 1 - PURPOSE OF SCHEDULES

Fund Financial Statements

The Fund Financial Statements provide information on the District's individual funds as reported to the State Chancellor's Office. These funds are presented on the modified accrual basis of accounting to provide additional analysis of the District's activities.

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INDEPENDENT AUDITORS' REPORTS

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

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

We have audited the financial statements of Long Beach Community College District as of and for the year ended June 30, 2004, and have issued our report thereon dated November 5, 2004. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Long Beach Community College 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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Long Beach Community College District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Financial Statement Findings as items 2004-1 through 2004-3. We also noted other matters involving the internal control over financial reporting that we have reported to management of Long Beach Community College District in a separate letter dated November 5, 2004.

A material weakness is a condition in which the design or operation of one or more of the 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, certain items are identified as material weaknesses in the findings and questioned costs section of this report.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Governing Board, management, the California Department of Education, the State Controller's Office, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Warrinck, Irvine, Day & Co. LLP

Rancho Cucamonga, California
November 5, 2004



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of Long Beach Community College 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, 2004. The District's major Federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. 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 of America, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, Long Beach Community College 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, 2004.

Internal Control Over Compliance

The management of Long Beach Community College District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Long Beach Community College 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 the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the 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 the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Trustees, District Management, the California State Chancellor's Office, and the District's 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.

Varrinck, Orine, Day & Co. LLP

Rancho Cucamonga, California
November 5, 2004



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

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, and have issued our report thereon dated November 5, 2004.

Our audit was made in accordance with auditing standards generally accepted in the United States of America, and the standards for financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America, and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the following State laws and regulations in accordance with Section 400 of the Chancellor's Office's *California Community Colleges Contracted Audit Manual (CDAM)*.

General Directives

MIS Implementation - Required Data Elements

Compliance Requirement

Each district shall have the ability to support timely, accurate, and complete information for the following workload measures used in the calculation of State General Apportionment:

- Credit Full-Time Equivalent Student (FTES) is weekly census, daily census, actual hour of attendance, and apprenticeship courses.
- Noncredit FTES in actual hours of attendance courses.
- Credit Student Headcount Data.
- Gross square footage and FTES growth in leased facilities.

Administrative

Fiscal Operations - Salaries of Classroom Instructors (50 Percent Law)

Compliance Requirement

Each district's salaries of classroom instructors shall equal or exceed 50 percent of the district's current expense of education in accordance with Section 84362 of the *California Education Code*.

Fiscal Operation - Gann Limit Calculation

Compliance Requirement

Each district shall calculate and adopt an appropriation limit annually in a public meeting. The calculation and adoption shall be verified by certified public accountants as part of the annual audit of financial statements.

Apportionments - Students Actively Enrolled

Compliance Requirement

Each district shall claim, for apportionment purposes only, the attendance of students actively enrolled in a course section as of the census date (if census procedures are used to record attendance in the course section).

Apportionments - Enrollment Fees

Compliance Requirement

Community colleges are required to report the total amount students should have paid for enrollment fees for the purpose of determining each district's share of apportionment revenue.

Apportionment - Instructional Service Agreements/Contracts

Compliance Requirement

Community colleges may claim FTES for classes given at a contractor's site and use the contractor's employees as instructors for the classes if the following requirements are met:

- Programs must be approved by the State Chancellor's Office and courses must be part of those approved programs, or the District must have received delegated authority to separately approve those courses.
- Courses must be open to the general public.
- Students must be under the immediate supervision of a District employee.
- The District employee must possess valid credentials or meet the minimum qualifications required for the assignment.

Apportionment - Residency Determination for Credit Classes

Compliance Requirement

District internal fiscal controls should ensure that State apportionment for credit course is only claimed for student attendance allowed by statute and regulation. Student residence at the time of registration is a major factor for allowing districts to claim State apportionment for credit courses.

Apportionment - Concurrent Enrollment of K-12 Students in Community College Courses

Compliance Requirement

A community college district may claim FTES for the attendance of K-12 pupils who take courses offered by the district under this concurrent enrollment arrangement only if it complies with all related California Education Code sections.

Open Enrollment

Compliance Requirement

Community colleges shall comply with Title 5 provisions of the *California Code of Regulations* related to open enrollment by the general public for all courses being submitted for State apportionment funding.

Student Services

Uses of Matriculation Funds

Compliance Requirement

The District is required to use local funds to support at least 75 percent of the matriculation activities with the remaining expenditures claimable against the State matriculation allocation. All expenditures related to the allocation, both State and locally funded portions, must be consistent with the District's State-approved matriculation plan and identifiable as matriculation related activities as authorized by the Seymour-Campbell Matriculation Act of 1986.

Special Programs

Extended Opportunity Programs and Services - (EOP&S) - Allocation of Costs

Compliance Requirement

Salaries of instructors teaching FTES generating classes, school counselors providing academic advisement, Student Services at the Dean level or above, and financial aid officers conducting need analysis are not considered supportable charges against EOP&S accounts unless their activities require them to perform additional functions for the EOP&S program that are beyond the scope of services provided to all students in the normal performance of the regular duty assignments. These activities may be supported only to the extent of the supplementary services provided for EOP&S.

Extended Opportunity Programs and Services (EOP&S) - Administrator/Director Requirements

Compliance Requirement

Districts accepting EOP&S funds are required to contribute from non-EOP&S sources the salary of the EOP&S administrator/director at the rate of 100 percent of salary and benefits for formal program activities associated with the implementation and operation of EOP&S specific activities over and above general supervision of EOP&S activities.

Facilities Program

Scheduled Maintenance Program

Compliance Requirement

Funds provided by the State must be used to supplement, not supplant, District deferred maintenance funds. This is defined as the amount spent in fiscal year 1995-96 for Operation and Maintenance of Plant increased by an amount equal to the State's contribution and District's match for the Scheduled Maintenance Program for the year being audited.

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 Long Beach Community College District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2004.

This report is intended solely for the information of the Board of Trustees, District Management, the California Community Colleges Chancellor's Office, the California Department of Finance, and the California Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Vaurinek, Irine, Day & Co. LLP

Rancho Cucamonga, California
November 5, 2004

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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LONG BEACH COMMUNITY COLLEGE DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2004**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>Yes</u>
Reporting conditions identified not considered to be material weaknesses?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>No</u>
Identification of major programs:	

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.033, 84.063, 84.007, 84.038, 84.268</u>	<u>Student Financial Aid Cluster</u>
<u> </u>	<u> </u>
<u> </u>	<u> </u>
<u> </u>	<u> </u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 825,704</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	<u>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for State programs:	<u>Unqualified</u>

LONG BEACH COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2004

The following findings represent reportable conditions, material weaknesses, and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

MATERIAL WEAKNESSES

DISTRICT FINANCIAL CONDITION

2004-1 Finding

As reported in the District's general ledger, the Unrestricted General Fund ended the 2003-2004 fiscal year with a total unrestricted ending balance of \$1,605,066. This balance reflects \$2,876,782 in prior year adjustments that had not yet been reflected on the Community College Financial Statement (CCFS-311) reported to the State Chancellor's Office. There were no additional audit adjustments proposed or posted as a result of our audit procedures. The District had originally reported General Reserves of at least five percent of the unrestricted ending fund balance; however, the current General Reserve level has now fallen to 1.8 percent of total Unrestricted General Fund Expenditures. The State Chancellor's Office has recommended a reserve level of at least five percent of Unrestricted General Fund Expenditures in order to provide for the ongoing financial health and stability of the District.

Recommendation

The budget for the 2004-2005 year should be analyzed to determine the effect of this reduced ending balance of the expenditures planned for the current fiscal year. As the budget is adjusted, it should be closely monitored to ensure the future health and stability of the District. It appears some expenditures for healthcare benefits that are charged only to the unrestricted General Fund's general ledger accounts may actually be the obligation of other funds as these balances have been adjusted on the CCFS-311 report. The District should research the possibility of recouping the cost of these benefits from the other funds and establish a practice of allocating those benefit charges to the other funds on a quarterly basis.

District Response

California Code of Regulations Section 48305(d) requires the College to prepare and submit the CCFS-311 Annual Financial and Budget Report to the California Community Colleges Chancellor's Office and the County Office of Education. The CCFS-311 Annual Financial and Budget Report is the mechanism used to communicate financial information to these oversight agencies.

The prior period adjustment is larger than typical because of difficulties arising from the decision to break the General Fund into smaller units:

- Unrestricted General Fund
- Restricted General Fund
- Veteran's Stadium Operations Enterprise Fund
- Contract/Community Education Fund
- Retiree Health Fund
- COP Debt Service Fund

LONG BEACH COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2004

This decomposition of the General Fund creates improved accountability and documentation of the interactions between the funds, i.e. explicit interfund transfers.

The College concurs with the auditor's recommendation. A comprehensive review of the 2004-2005 budget estimates is underway. This review has uncovered an omission in the calculation of the State apportionment revenue estimate. The recomputed State apportionment revenue estimate ameliorates the effect of the prior period adjustment, so there will be negligible impact on College operations.

CASH IN COUNTY TREASURY BALANCES

2004-2 Finding

In reviewing the reconciliation of the year end Cash in County Treasury balances, it was noted an entry was made prior to the final closing of the books to record the receipt of approximately \$3 million in Tax and Revenue Anticipation Note proceeds that the District did not actually receive until July 8, 2004. An offsetting entry was also made to overstate the Accounts Payable balance. The effect of this transaction overstated the District's Unrestricted General Fund investment balance when, in fact, the balance was a negative \$1.6 million.

Recommendation

Care should be taken to ensure that only valid transactions are actually posted to the general ledger.

District Response

In June 2004, the College recognized the need to augment the level of cash in the Unrestricted General Fund and took action to draw down Tax Revenue Anticipation Note (TRAN) proceeds. At that time, it was reasonable to expect the TRAN underwriter to make those proceeds available before June 30, 2004, and for the County Office of Education to record the transaction before June 30, 2004. Nonetheless, the transaction was not recorded by the County Office until after the Independence Day holiday.

In the future, staff will take extra care to ensure that the dates of accounting transactions in the College's accounting system coincide exactly with the transaction dates in the County Office of Education's accounting system.

LONG BEACH COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2004

CERTIFICATES OF PARTICIPATION

2004-3 **Finding**

The District issued \$34,500,000 in Certificates of Participation through the Long Beach Community College District Financing Corporation. There has been no reconciliation of the activity within the Certificates of Participation trustee statements. We noted discrepancies between the amounts drawn by the District and the amounts posted to the trustee statements by the bank. The bank is in the process of providing a reconciliation of the balances and transactions from the inception of the issuance. Additionally, the investments held by the trustee have not been reported to the Board on a regular basis even though the Financing Corporation is a component unit of the District and shares all Board members.

Recommendation

The District Business Office should work with the bank to reconcile all trustee statements from the inception of the Certificate's issuance to ensure all transaction related to interest earnings, draw-downs of funds, and charges have been properly accounted for and posted to the trustee statements. On a quarterly basis, the activity and investment balance held by the bank should be reported to the Board. This will ensure that all transactions have been reviewed and properly reported.

District Response

The College concurs. Staff will reconcile trustee statements on an ongoing basis. Additionally, future Quarterly Budget Status Reports, submitted to the Board, will include information about activity and the investment balance.

LONG BEACH COMMUNITY COLLEGE DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

There were no findings representing reportable conditions, material weaknesses, and/or instances of noncompliance including questioned costs that are required to be reported by OMB Circular A-133.

LONG BEACH COMMUNITY COLLEGE DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

There were no findings representing instances of noncompliance and/or questioned costs relating to State program laws and regulations.

LONG BEACH COMMUNITY COLLEGE DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004**

There were no audit findings reported in the prior year's schedule of audit findings.