

**LONG BEACH
COMMUNITY COLLEGE DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2004

LONG BEACH COMMUNITY COLLEGE DISTRICT

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the Long Beach Community College District (the District) for the year ended June 30, 2004. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

The Management's Discussion and Analysis on pages 4 through 9 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Waurinek, Irine, Day & Co LLP

Rancho Cucamonga, California
November 5, 2004



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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	<u>1,103,760</u>
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>