



Los Angeles Community College District

Report on Audited Basic Financial Statements

June 30, 2003

LOS ANGELES COMMUNITY COLLEGE DISTRICT

June 30, 2003

Los Angeles County, California:

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

LOS ANGELES COMMUNITY COLLEGE DISTRICT

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INTRODUCTION

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LOS ANGELES COMMUNITY COLLEGES

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

OFFICE OF THE CHANCELLOR
Peter J. Landsberger, Acting Chancellor

December 31, 2003

Members, Board of Trustees
Los Angeles Community College District

I have received and reviewed and am pleased to submit the Annual Financial Report of the Los Angeles Community College District (District) for the fiscal year ended June 30, 2003. This report is presented in six sections, which include an Introduction, the Management's Discussion and Analysis, the Independent Auditor's Report, the Basic Financial Statements, the Supplemental Information, the Current Year State Findings and Recommendations, and the Current Year Federal Findings & Questioned Costs including the Status of Prior Year Findings and Recommendations. The report also includes all Funds of the Los Angeles Community College District as well as those of student organizations.

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

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

District Background

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

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

The Los Angeles Community College District serves approximately 123,000 students, employs approximately 3,747 full-time and 10,265 part-time personnel and covers a service area of more than 800 square miles.

Enrollment

The Los Angeles Community College District's enrollment for the fiscal year ended June 30, 2003 increased 2.5 percent from the previous year.

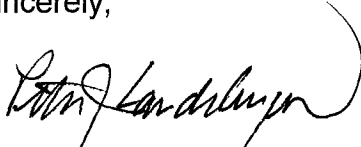
Enrollment figures (credit student headcounts) by campus for the 2002-2003 fiscal year were as follows:

| | <u>Fall</u> | <u>Spring</u> |
|-------------------------------------|----------------|----------------|
| East Los Angeles College | 21,629 | 21,425 |
| Los Angeles City College | 18,372 | 17,035 |
| Los Angeles Harbor College | 9,469 | 9,169 |
| Los Angeles Mission College | 8,966 | 8,188 |
| Los Angeles Pierce College | 18,874 | 18,112 |
| Los Angeles Southwest College | 6,600 | 6,501 |
| Los Angeles Trade-Technical College | 13,437 | 13,292 |
| Los Angeles Valley College | 19,275 | 18,055 |
| West Los Angeles College | 9,718 | 10,040 |
| Instructional Television | 1,673 | 1,790 |
| Total Districtwide | 128,013 | 123,607 |

Members, Board of Trustees
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December 31, 2003

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

Sincerely,

A handwritten signature in black ink, appearing to read "Peter Landsberger", with a large, sweeping flourish extending to the right.

Peter Landsberger
Chancellor

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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LOS ANGELES COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis

June 30, 2003

This section presents Management's Discussion and Analysis (MD&A) of the Los Angeles Community College District's (the District) financial activities during the fiscal year ended June 30, 2003. The discussion has been prepared by management and should be read in conjunction with the basic financial statements and the notes thereto, which follow this section.

Financial Highlights

- The assets of the District exceeded its liabilities as of June 30, 2003 by \$277.9 million (net assets). Of this amount, \$7.6 million (unrestricted net assets) may be used to meet the District's ongoing obligations and \$45.2 million (restricted net assets) may be used for the District's ongoing obligations related to programs with external restrictions. The remaining component of the District's net assets represents \$225 million of amounts invested in capital assets, net of related debt.
- The District's total net assets decreased \$2.8 million during the fiscal year ended June 30, 2003. A significant portion of the decrease in the District's net assets was a result of increases in operating expenses incurred in the fiscal year ended June 30, 2003.
- The District's investment in capital assets increased by \$72.6 million or 17.1% during the year ended June 30, 2003. During the fiscal year 2003, the District acquired one additional property, the Van De Kamp Satellite Building for Los Angeles City College, valued at \$6.75 million. Capital construction projects related to the Proposition A Bonds accounted for \$62.9 million in construction in progress at June 30, 2003.
- The District's total long-term debt decreased by \$11 million or 1.7% during the fiscal year ended June 30 2003.

Overview of the Financial Statements

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

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis

June 30, 2003

This Management's Discussion and Analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements include four components: (1) Statement of Net Assets; (2) Statement of Revenues, Expenses, and Changes in Net Assets; (3) Statement of Cash Flows; and (4) Notes to the Basic Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

Statement of Net Assets

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

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

Statement of Revenue, Expenses, and Changes in Net Assets

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

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the District.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis

June 30, 2003

Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations are nonoperating because they are provided by the Legislature to the institution without the Legislature directly receiving commensurate goods and services for those revenues.

Financial Analysis of the District as a Whole

As of June 30, 2003, the District's net assets have decreased slightly to \$277.9 million from \$280.7 million at June 30, 2002. The \$2.8 million decrease in net assets resulted from a \$58.4 million decrease in current and other assets, a \$59.7 million increase in capital assets, a \$15.4 million increase in current liabilities, and a \$11.3 million decrease in long-term liabilities.

Summary Schedule of Net Assets

June 30, 2003 and 2002

| | <u>2003</u> | <u>2002</u> | <u>Increase (decrease)</u> |
|---|-----------------------|--------------------|--------------------------------|
| Assets: | | | |
| Current and other assets | \$ 665,603,529 | 724,038,857 | (58,435,328) |
| Capital assets, net | <u>329,296,359</u> | <u>269,562,403</u> | 59,733,956 |
| Total assets | <u>994,899,888</u> | <u>993,601,260</u> | 1,298,628 |
| Liabilities: | | | |
| Current liabilities | 98,204,326 | 82,775,608 | 15,428,718 |
| Noncurrent liabilities | <u>618,829,829</u> | <u>630,105,617</u> | (11,275,788) |
| Total liabilities | <u>717,034,155</u> | <u>712,881,225</u> | 4,152,930 |
| Net assets: | | | |
| Invested in capital assets, net of debt | 225,070,619 | 220,240,967 | 4,829,652 |
| Restricted – expendable | 45,157,196 | 50,760,277 | (5,603,081) |
| Unrestricted | <u>7,637,918</u> | <u>9,718,791</u> | (2,080,873) |
| Total net assets | <u>\$ 277,865,733</u> | <u>280,720,035</u> | (2,854,302) |

In 2003, the District spent \$72.6 million in capital assets and depreciated \$12.9 million of such assets. This resulted in part in a \$46.6 million decrease in short-term investments and \$19 million decrease in receivables, which contributed to a \$58.4 million reduction in current assets.

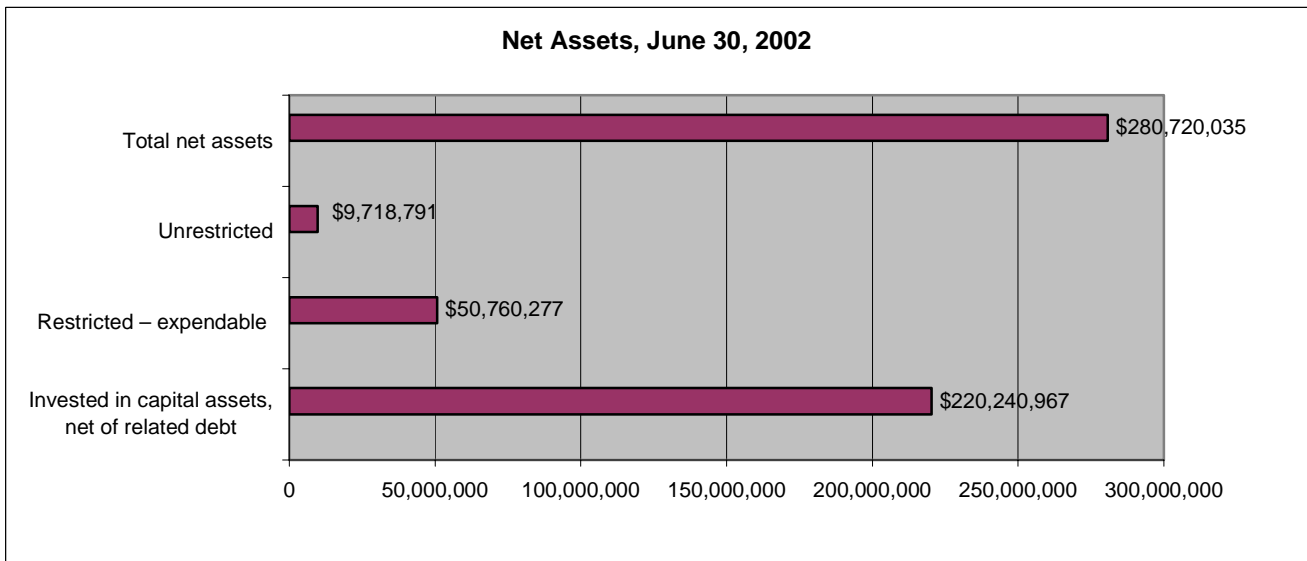
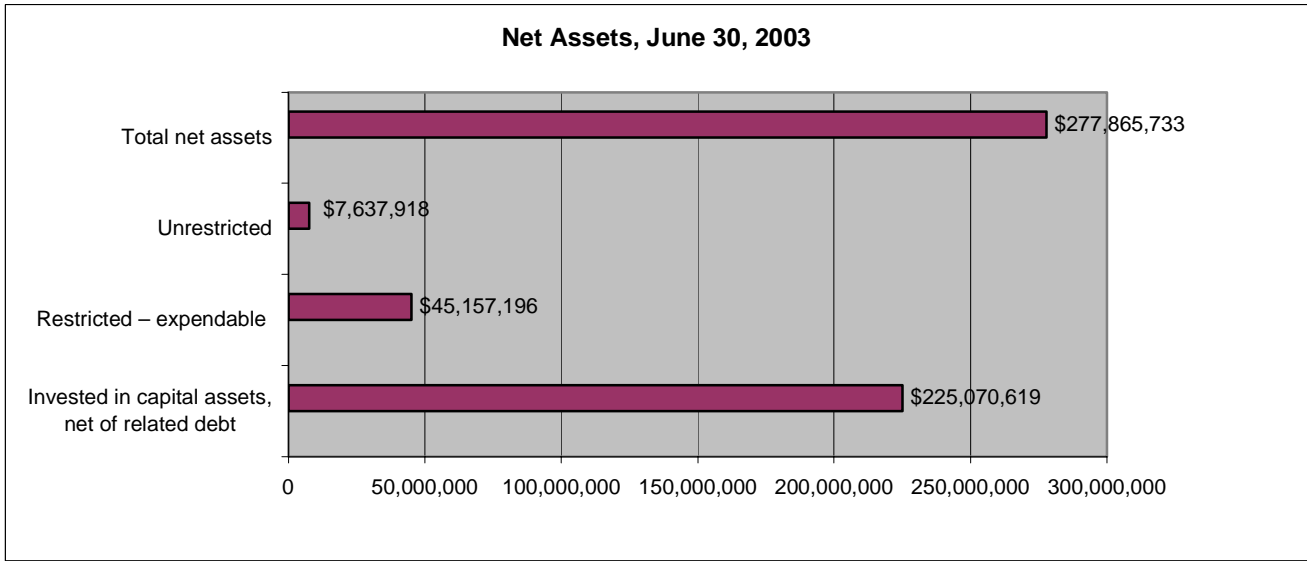
The \$15.4 million increase in current liabilities is due in part to a \$9.6 million increase in vendor payables, a \$5.3 million increase in current liabilities for debt service payments, and a \$2.6 decrease in amounts held in Trust accounts for others.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis

June 30, 2003

The \$11.3 million net decrease in long-term liabilities is partially due a net \$21 million decrease in long-term debt liabilities, and a \$2.6 million increase in accrued vacation benefits. This decrease was offset by a \$10 million increase in the Districts' provision for additional workers' compensation liabilities. The increase is a result of a recent actuarial study that recommended an increase in the workers' compensation liabilities from \$22 million to \$33 million.



LOS ANGELES COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis

June 30, 2003

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$277.9 million at June 30, 2003. A significant portion of the District's net assets represents \$468 million of short-term investments and \$329.2 million of capital assets. As stated earlier, the District spent \$72.6 million for additional capital assets. These capital asset expenditures are included in the Statement of Net Assets. Also, the District depreciated its capital assets by approximately \$12.9 million for the year ended June 30, 2003 resulting in a net increase in capital assets of \$59.7 million. The District's net assets also include \$594 million of long-term debt. The majority of the District's long-term debt is used to fund the construction and acquisition of capital assets.

The Statement of Revenues, Expenses, and Changes in Net Assets reflects an unfavorable year with a decrease of \$2.8 million in the net assets at the end of the year as explained below.

In 2003, operating revenue for grant and contracts, noncapital resulted in a net decrease of \$22.1 million, which includes a \$10 million increase in federal funded programs, a \$5.9 million decrease in state-funded categorical programs, and a \$26.2 million decrease in local revenue due to the absence of the \$27.7 million of the 2001 COPS proceeds, which was received in 2002. Other operating revenue decreased \$1.7 million.

Nonoperating revenue includes a \$12 million increase in property tax collection, a \$6 million decrease in investment income, and a \$11 million increase in other nonoperating revenue. The \$11 million increase in other nonoperating revenue includes \$17.9 million revenue from the Los Angeles County Treasurer to pay the first principal payment of \$17.9 million for the Proposition A General Obligation Bond.

Operating expenses increased \$22.7 million, due primarily to a \$2.8 million decrease in salaries resulting from the District's midyear class offerings reduction and hiring freeze and a \$27 million increase in employee benefits, which includes a \$15.5 million increase in statutory and health benefits, a \$11 million increase in accrued workers' compensation, and a \$2.6 million increase in accrued vacation benefits.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis

June 30, 2003

Summary Schedule of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2003 and 2002

| | <u>2003</u> | <u>2002</u> | <u>Change</u> |
|--|-----------------------|--------------------|---------------------|
| Revenues: | | | |
| Operating revenues: | | | |
| Net tuition and fees | \$ 32,163,334 | 32,395,058 | (231,724) |
| Grants and contracts, noncapital | 131,284,428 | 153,392,268 | (22,107,840) |
| Other | 30,628,208 | 32,381,699 | (1,753,491) |
| Nonoperating revenues: | | | |
| State apportionments, noncapital | 250,047,306 | 250,234,337 | (187,031) |
| Property taxes | 118,266,341 | 106,208,590 | 12,057,751 |
| Investment income | 24,979,696 | 31,260,449 | (6,280,753) |
| Other | 38,091,833 | 26,687,735 | 11,404,098 |
| Other revenues: | | | |
| State apportionments, capital | 13,545,470 | 20,394,552 | (6,849,082) |
| Local property taxes and revenues, capital | 2,078,201 | 4,275,975 | (2,197,774) |
| Total revenues | <u>641,084,817</u> | <u>657,230,663</u> | <u>(16,145,846)</u> |
| Expenses: | | | |
| Operating expenses: | | | |
| Salaries | 327,070,110 | 329,944,145 | (2,874,035) |
| Employee benefits | 96,956,596 | 69,882,112 | 27,074,484 |
| Supplies, materials, and other operating expenses and services | 185,546,720 | 189,192,101 | (3,645,381) |
| Other | 19,071,982 | 16,865,211 | 2,206,771 |
| Total operating expenses | <u>628,645,408</u> | <u>605,883,569</u> | <u>22,761,839</u> |
| Nonoperating expenses: | | | |
| Interest expense | 4,331,558 | 1,612,746 | 2,718,812 |
| Other | 10,962,154 | 9,179,492 | 1,782,662 |
| Total expenses | <u>643,939,120</u> | <u>616,675,807</u> | <u>27,263,313</u> |
| Change in net assets | <u>\$ (2,854,303)</u> | <u>40,554,856</u> | <u>(43,409,159)</u> |

Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Assets are as follows:

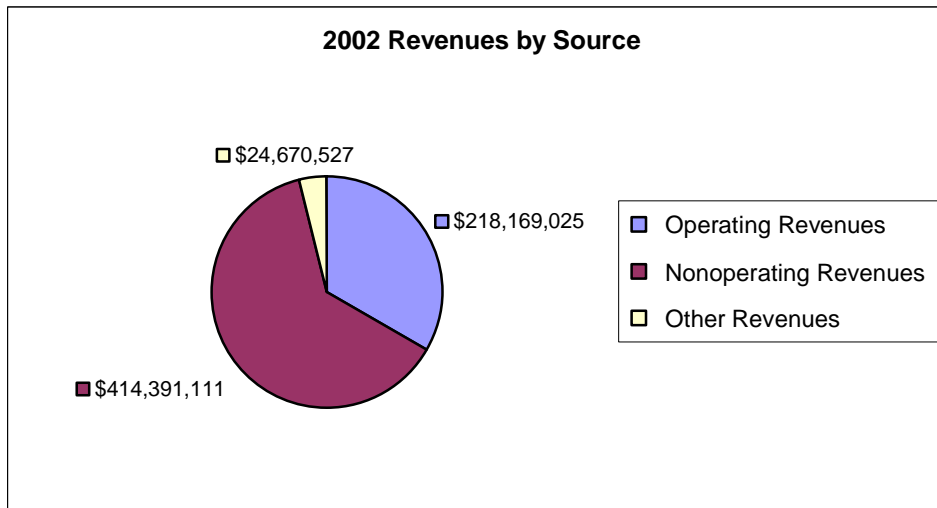
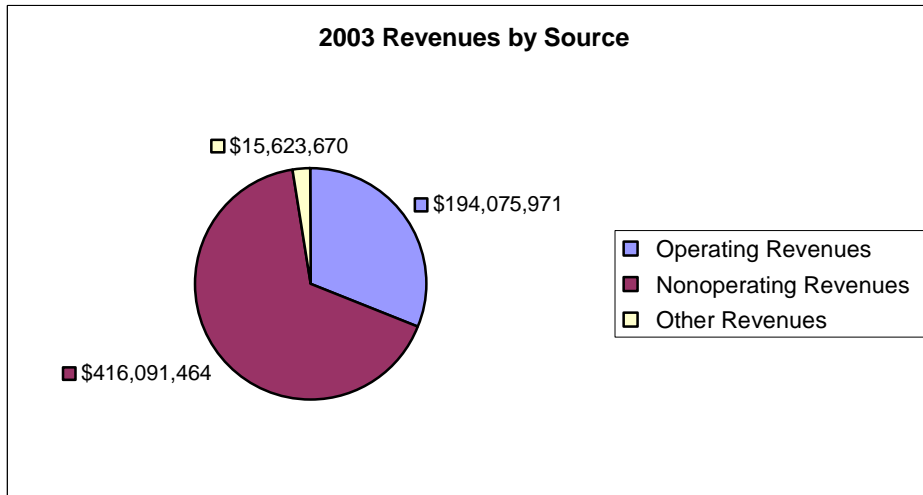
- The decrease in net assets of \$2.8 million represents the degree to which increases in ongoing expenses exceeded increases in ongoing revenues.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis

June 30, 2003

- Operating revenues include \$32.1 million in tuition and fees, \$88.0 million in federal grants and contracts, \$31.3 million in state grants and contracts, \$11.9 million in local grants and contracts, and \$30.6 million in auxiliary enterprise sales and charges.
- Nonoperating revenues include state apportionments, local property taxes, interest income, and other miscellaneous nonoperating revenues. State apportionments are at \$250 million. Property taxes increased by \$12 million due to increased property tax collection. The largest component of the District's nonoperating revenues is state apportionments and local property taxes which represent 85% of nonoperating revenues for the years ended June 30, 2003 and 2002.

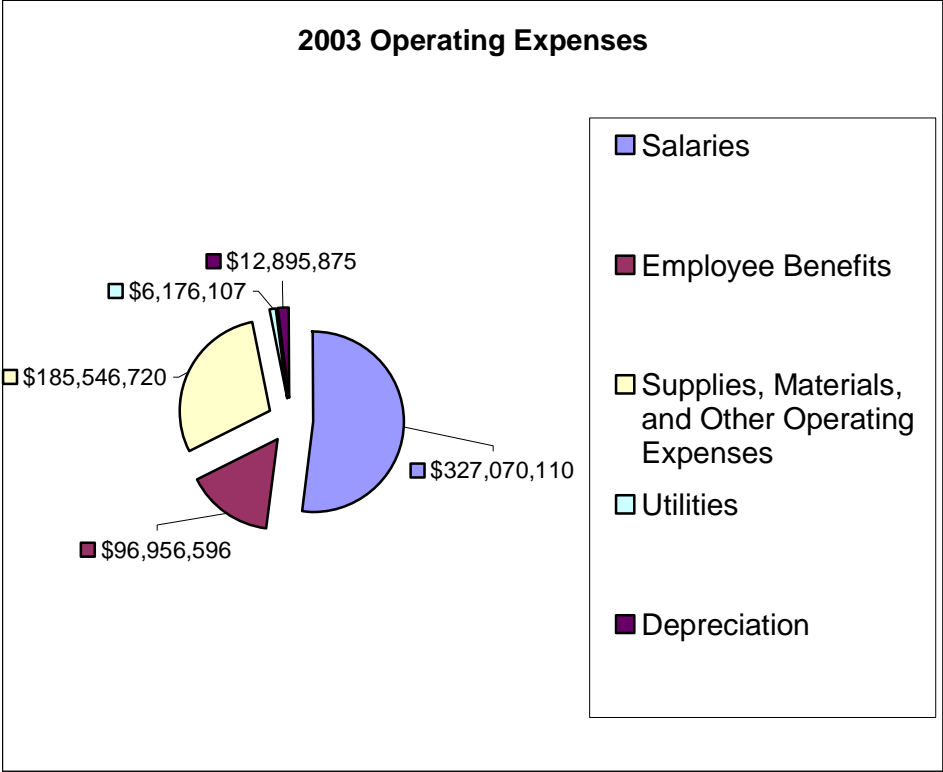


LOS ANGELES COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis

June 30, 2003

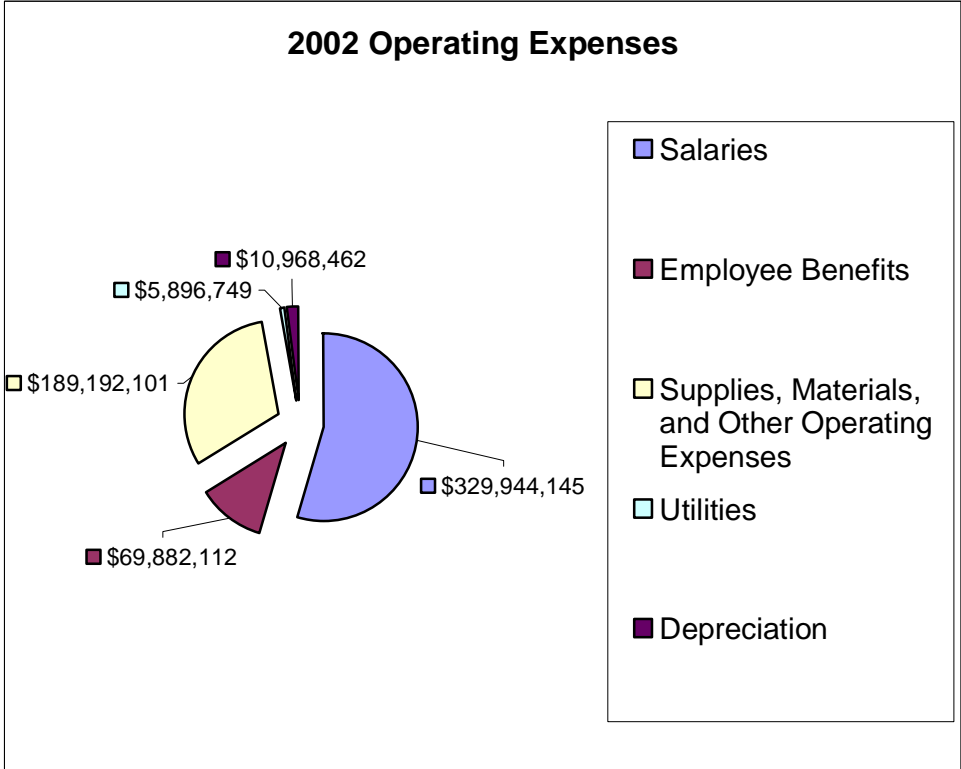
Salary expenses represent 52% of the District's total operating expenses. Salary expenses decreased by \$2.8 million in 2003. Employee benefits increased by \$27 million due to the significant increase in workers' compensation liabilities and an \$15 million increase in statutory and health benefits.



LOS ANGELES COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis

June 30, 2003



LOS ANGELES COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis

June 30, 2003

Capital Assets and Debt Administration

Capital Assets

The District's investment in capital assets as of June 30, 2003 and 2002 totaled \$329.3 million and \$269.6 million, respectively (net of accumulated depreciation). This investment is comprised of a broad range of capital assets including land, buildings, construction in progress, works of art, infrastructure and machinery, and equipment. All capital assets are capitalized and depreciated. The following schedules summarize the activity of the District's capital assets for the years ended June 30, 2003 and 2002:

Capital Assets, Net

| | 2003 | | | |
|-------------------------------|------------------------------------|------------------|------------------|-------------------------------------|
| | Balance at July 1, 2002 | Additions | Disposals | Balance at June 30, 2003 |
| Land | \$ 32,499,839 | — | — | 32,499,839 |
| Land improvements | 30,812,500 | 43,597 | — | 30,856,097 |
| Buildings | 286,104,044 | 4,434,988 | — | 290,539,032 |
| Construction in progress | 35,397,727 | 63,958,023 | — | 99,355,750 |
| Works of art | 518,000 | — | — | 518,000 |
| Equipment | 34,568,887 | 4,193,223 | — | 38,762,110 |
| Infrastructure | 2,895,800 | — | — | 2,895,800 |
| Total | 422,796,797 | 72,629,831 | — | 495,426,628 |
| Less accumulated depreciation | (153,234,394) | (12,895,875) | — | (166,130,269) |
| Net capital assets | \$ 269,562,403 | 59,733,956 | — | 329,296,359 |

Capital Assets, Net

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

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis

June 30, 2003

For the years ended June 30, 2003, the District recorded an additional \$72.6 million in capital assets and \$12.0 million in depreciation. During the year ended June 30, 2003, the District's investments in facility master plans, construction, and building improvements increased due to funding from Proposition A, which is recorded in the District's Building Fund. The District had a significant number of building projects ongoing funded from Proposition A Bond money. A total of \$54 million of Proposition A bond funds were spent for assets under construction. In addition, the District acquired property at a cost of \$6.7 million for the Los Angeles City College.

Long-Term Debt

At June 30, 2003 and 2002, the District had \$593.6 million and \$610.0 million in long-term debt, respectively. The District's long-term debt decreased during the year ended June 30, 2003 as a result of the refunding of 1992 Series A COPS and debt services payments for other COPS series.*

Summary of Outstanding Long-Term Debt

June 30, 2003 and 2002

| | <u>2003</u> | <u>2002</u> |
|--------------------------|-----------------------|--------------------|
| Refunding COPS: | | |
| 1992 Series A | \$ — | 44,570,000 |
| 1993 Series A | 4,505,000 | 5,830,000 |
| 1999 Series A | 6,385,000 | 6,730,000 |
| 2001 Series A | 27,310,000 | 27,785,000 |
| 2002 Series A | 48,335,000 | — |
| General obligation bonds | <u>507,030,000</u> | <u>525,000,000</u> |
| Total long-term debt | <u>\$ 593,565,000</u> | <u>609,915,000</u> |

* All outstanding COPS were paid off subsequent to June 30, 2003 from Proposition AA – General Obligation Bond proceeds.

Further information regarding the District's capital assets and long-term debt can be found in notes 6, 10, and 12 in the accompanying notes to the basic financial statements.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis

June 30, 2003

Economic Factors

State Economy

As the state of California still anticipates a \$14 billion deficit, the District continues to have difficulty maintaining program funding levels while faced with the uncertainty of a state revenue reduction. The District receives more than 75% of its general operating funds from state apportionment and property taxes. The 2002-03 midyear reduction adversely affected the District's financial condition. The District has begun taking drastic measures in response to the state financial crisis. The measures include a 5% reduction in course offerings in 2003-04, a hiring and purchasing freeze, retirement incentives, and staffing changes to contain expenditures. The District established a 2% (\$7.8 million) for fiscal year 2003-2004 and a 3% (\$12 million) for fiscal year 2004-2005 Contingency Reserve to cover unforeseen events. However, the state deficit problem will continue to be a challenge for the District in its attempt to prioritize its resources and reduce costs in the next two years.

Capital Projects

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

In May 2003, the District passed another General Obligation Bond – Proposition AA, for \$980 million. The bond measure was designed to finance construction, building acquisition, equipment, and improvement of college and support facilities at the various campuses of the District and refinance other outstanding debts of the District and colleges. The District is in a major capital construction program that will continue for the next several years. Of the total \$2.25 billion that has been authorized, only \$915 million in bonds have been issued to date.

Student Enrollment and State Funding

The District has had continued enrollment increases over the last three years. This year the district's enrollment increased 2.5%. The District serves more than 120,000 students; however, the District does not receive full funding for this number of students. As a result, the District has educated more than 10,000 students without any additional funding to support the costs. The District is seeking legislative changes to provide for additional funding for enrollment and to strengthen efforts to modernize facilities and renew programs and services to ensure access to students and community.

BASIC FINANCIAL STATEMENTS

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

Independent Auditors' Report

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

We have audited the basic financial statements of the Los Angeles Community College District (the District) as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior fiscal year summarized comparative information has been derived from the District's 2002 financial statements, and in our report dated December 13, 2002, based on our audit, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Los Angeles Community College District as of June 30, 2003 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 31, 2003 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on pages 1 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental financial information and other supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information and the supplemental financial information on pages 37 through 46 has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The supplemental information on pages 47 through 50 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

KPMG LLP

December 31, 2003

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Statement of Net Assets

June 30, 2003

(With comparative summarized financial information for June 30, 2002)

| Assets | 2003 | 2002 |
|---|----------------|---------------|
| | 2003 | 2002 |
| Current assets: | | |
| Cash and cash equivalents | \$ 60,513,833 | 51,414,624 |
| Short-term investments (note 3) | 468,153,671 | 514,772,749 |
| Accounts receivable, net of allowance (note 4) | 23,672,988 | 42,698,103 |
| Notes receivable, current portion (note 4) | 2,815,000 | 2,052,936 |
| Student loans receivable, current portion (note 4) | 464,368 | 389,945 |
| Deposit with bond trustee | 60,569,332 | 57,944,841 |
| Inventory | 6,872,846 | 8,487,231 |
| Prepaid expenses and other assets | 38,134 | 232,723 |
| | 623,100,172 | 677,993,152 |
| Noncurrent assets: | | |
| Restricted cash and cash equivalents | 38,789,833 | 39,149,353 |
| Long-term investments | — | 48,993 |
| Notes receivable, noncurrent portion | — | 2,815,000 |
| Student loans receivable, noncurrent portion (note 4) | 3,713,524 | 4,032,359 |
| Capital assets (note 6): | | |
| Land | 32,499,839 | 32,499,839 |
| Land improvements | 30,856,097 | 30,812,500 |
| Buildings | 290,539,032 | 286,104,044 |
| Construction in progress | 99,355,750 | 35,397,727 |
| Works of art | 518,000 | 518,000 |
| Machinery and equipment | 38,762,110 | 34,568,887 |
| Infrastructure | 2,895,800 | 2,895,800 |
| Accumulated depreciation | (166,130,269) | (153,234,394) |
| | 329,296,359 | 269,562,403 |
| Capital assets, net | | |
| Total assets | \$ 994,899,888 | 993,601,260 |

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Statement of Net Assets

June 30, 2003

(With comparative summarized financial information for June 30, 2002)

| Liabilities and Net Assets | 2003 | 2002 |
|---|-----------------------------|-----------------------------|
| | <u> </u> | <u> </u> |
| Current liabilities: | | |
| Accounts payable | \$ 51,260,996 | 41,339,115 |
| Deferred revenue | 6,871,601 | 6,672,784 |
| Compensated absences payable – current portion | 720,223 | 716,967 |
| General liability claims payable – current portion | 191,524 | 252,100 |
| Workers’ compensation claims payable – current portion | 5,754,747 | 4,714,215 |
| Other accrued liabilities | 2,273,386 | 1,366,703 |
| Amounts held in trust for others | 2,609,270 | 4,974,629 |
| Revenue bonds payable – current portion | 406,653 | 406,653 |
| Long-term debt – current portion | 26,935,000 | 21,605,000 |
| Capital leases – current portion | 1,180,926 | 727,442 |
| | <u> </u> | <u> </u> |
| Total current liabilities | 98,204,326 | 82,775,608 |
| Noncurrent liabilities: | | |
| Compensated absences payable – noncurrent portion | 11,537,427 | 10,973,203 |
| General liability claims payable – noncurrent portion | 1,498,000 | 1,491,900 |
| Workers’ compensation claims payable – noncurrent portion | 27,508,253 | 17,496,785 |
| Revenue bonds payable – noncurrent portion | 2,846,570 | 3,253,223 |
| Long-term debt – noncurrent portion | 566,630,000 | 588,310,000 |
| Capital leases – noncurrent portion | 8,809,579 | 8,580,506 |
| | <u> </u> | <u> </u> |
| Total noncurrent liabilities | 618,829,829 | 630,105,617 |
| Total liabilities | <u> </u> | <u> </u> |
| | 717,034,155 | 712,881,225 |
| Net assets: | | |
| Invested in capital assets, net of related debt | 225,070,619 | 220,240,967 |
| Restricted for: | | |
| Expendable: | | |
| Scholarships and loans | 5,537,867 | 4,945,907 |
| Capital projects | 9,680,572 | 2,882,371 |
| Debt service | 11,843,238 | 26,968,285 |
| Other special purposes | 18,095,519 | 15,963,714 |
| Unrestricted | 7,637,918 | 9,718,791 |
| | <u> </u> | <u> </u> |
| Total net assets | 277,865,733 | 280,720,035 |
| Total liabilities and net assets | <u> </u> | <u> </u> |
| | \$ 994,899,888 | 993,601,260 |

See accompanying notes to basic financial statements.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2003

(With comparative summarized financial information for the year ended June 30, 2002)

| | <u>2003</u> | <u>2002</u> |
|--|------------------------------|---------------------------|
| Operating revenues: | | |
| Tuition and fees | \$ 45,046,210 | 43,274,172 |
| Less scholarship discounts and allowances | <u>(12,882,876)</u> | <u>(10,879,114)</u> |
| Net tuition and fees | 32,163,334 | 32,395,058 |
| Grants and contracts, noncapital: | | |
| Federal | 88,021,756 | 77,935,099 |
| State | 31,357,123 | 37,273,046 |
| Local | 11,905,549 | 38,184,123 |
| Auxiliary enterprise sales and charges | <u>30,628,208</u> | <u>32,381,699</u> |
| Total operating revenue | <u>194,075,970</u> | <u>218,169,025</u> |
| Operating expenses: | | |
| Salaries | 327,070,110 | 329,944,145 |
| Employee benefits | 96,956,596 | 69,882,112 |
| Supplies, materials, and other operating expenses and services | 185,546,720 | 185,214,974 |
| Utilities | 6,176,107 | 5,896,749 |
| Depreciation | <u>12,895,875</u> | <u>10,968,462</u> |
| Total operating expenses | <u>628,645,408</u> | <u>601,906,442</u> |
| Operating loss | <u>(434,569,438)</u> | <u>(383,737,417)</u> |
| Nonoperating revenues (expenses): | | |
| State apportionments, noncapital | 250,047,306 | 250,234,337 |
| Local property taxes | 118,266,341 | 106,208,590 |
| State taxes and other revenue | 1,574,420 | 1,414,540 |
| Investment income – noncapital | 790,539 | 5,300,224 |
| Investment income – capital | 24,189,157 | 25,960,225 |
| Interest expense on capital asset-related debt | <u>(4,331,558)</u> | <u>(5,589,873)</u> |
| Other nonoperating revenue | 36,517,413 | 25,273,195 |
| Other nonoperating expense | <u>(10,962,154)</u> | <u>(9,179,492)</u> |
| Total nonoperating revenues | <u>416,091,464</u> | <u>399,621,746</u> |
| Income (loss) before other revenues | <u>(18,477,974)</u> | <u>15,884,329</u> |
| State apportionments, capital | 13,545,470 | 20,394,552 |
| Gifts and grants, noncapital | 1,526,125 | — |
| Local property taxes and revenues, capital | <u>552,076</u> | <u>4,275,975</u> |
| Changes in net assets | <u>(2,854,303)</u> | <u>40,554,856</u> |
| Net assets: | | |
| Beginning of year | <u>280,720,035</u> | <u>240,165,179</u> |
| End of year | \$ <u><u>277,865,732</u></u> | <u><u>280,720,035</u></u> |

See accompanying notes to basic financial statements.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Statement of Cash Flows

Year ended June 30, 2003

(With comparative summarized financial information for the year ended June 30, 2002)

| | <u>2003</u> | <u>2002</u> |
|---|-------------------------|----------------------|
| Cash flows from operating activities: | | |
| Tuition and fees | \$ 31,731,594 | 37,232,978 |
| Grants and contracts | 129,165,143 | 160,778,950 |
| Payments to suppliers | (170,523,620) | (173,271,764) |
| Payments for utilities | (6,176,107) | (5,896,749) |
| Payments to employees | (321,319,011) | (329,874,562) |
| Payments for benefits | (84,780,998) | (69,795,831) |
| Depreciation | (12,895,875) | (10,968,462) |
| Bookstore and cafeteria sales | 32,606,320 | 32,235,319 |
| Sales and service of educational | — | 304,977 |
| Other payments | 7,241,561 | (400,366) |
| Net cash used in operating activities | <u>(394,950,993)</u> | <u>(359,655,510)</u> |
| Cash flows from noncapital financing activities: | | |
| State appropriations | 249,856,442 | 250,234,337 |
| Property taxes | 119,106,576 | 108,420,855 |
| Investment income – noncapital | 1,574,420 | 5,300,224 |
| Other receipts | 24,482,925 | 10,907,363 |
| Net cash provided by noncapital financing activities | <u>395,020,363</u> | <u>374,862,779</u> |
| Cash flows from capital financing activities: | | |
| Proceeds from capital debt | 45,968,789 | 27,785,000 |
| Capital appropriations | 15,623,670 | 24,670,526 |
| Purchases of capital assets | (72,824,167) | (51,826,306) |
| Principal paid on capital debt and leases | (61,315,443) | (2,985,000) |
| Interest paid on capital debt and leases | (4,331,558) | (9,551,493) |
| Deposit with trustee | 60,569,332 | (57,944,841) |
| Net cash used in capital financing activities | <u>(16,309,377)</u> | <u>(69,852,114)</u> |
| Cash flows from investing activities: | | |
| Interest on investments | 24,979,696 | 25,960,225 |
| Net cash provided by investing activities | <u>24,979,696</u> | <u>25,960,225</u> |
| Net increase (decrease) in cash and cash equivalents | 8,739,689 | (28,684,620) |
| Cash and cash equivalents – beginning of year | 90,563,977 | 119,248,597 |
| Cash and cash equivalents – end of year | \$ <u>99,303,666</u> | <u>90,563,977</u> |
| Reconciliation of net operating loss to net cash used in operating activities: | | |
| Operating loss | \$ (434,569,438) | (383,737,417) |
| Appraisal adjustments, net | — | 93,911,701 |
| Adjustments to reconcile operating loss to net cash provided by (used in) operating activities: | | |
| Depreciation expense | 12,895,875 | 10,968,462 |
| Changes in assets and liabilities: | | |
| Receivables, net | 21,322,463 | (26,167,932) |
| Inventories | (1,614,385) | (2,069,964) |
| Other assets | 243,582 | 667,724 |
| Accounts payable | 9,921,881 | 5,813,499 |
| Deferred revenue | 198,817 | (2,550,873) |
| Deposits held for others | (2,365,359) | 2,109,341 |
| Deposit with bond trustee | 2,624,491 | (57,944,841) |
| Other liabilities | (4,169,888) | (1,829,011) |
| Compensated absences | 560,968 | 1,173,801 |
| Net cash used in operating activities | \$ <u>(394,950,993)</u> | <u>(359,655,510)</u> |

See accompanying notes to basic financial statements.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2003

(1) Organization and Reporting Entity

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

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

(2) Summary of Significant Accounting Policies

(a) *Basis of Presentation*

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

(b) *Financial Reporting*

The basic financial statements required by GASB Statements Nos. 34 and 35 include a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. The District is considered a special-purpose government under the provisions of GASB Statement No. 35. Accordingly, the District has chosen to present its basic financial statements using the reporting model for special-purpose governments engaged only in business-type activities. This model allows all financial information for the District to be reported in a single column. In accordance with the business-type activities reporting model, the District prepares its statement of cash flows using the direct method. The effect of internal activity between funds or groups of funds has been eliminated from these basic financial statements. The District's operating revenue includes tuition, fees, and federal and state revenues. Operating costs include cost of services as well as materials, contracts, personnel, and depreciation.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2003

(c) Cash and Cash Equivalents

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

(d) Inventory

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

(e) Properties and Depreciation

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

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

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

The District's capitalization threshold is as follows:

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

(f) Accrued Employee Benefits

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

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2003

(g) *Deferred Revenue*

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

(h) *Capitalized Interest*

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

(i) *Prior Year Information*

The basic financial statements and required supplementary information include partial or summarized prior-year comparative information. Such information does not include all of the information required or sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's basic financial statements for the year ended June 30, 2002, from which such partial and summarized information was derived.

(j) *Estimates*

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

(3) *Cash and Investments*

Cash and investments at June 30, 2003 and 2002 consist of the following:

| | <u>2003</u> | <u>2002</u> |
|----------------------------|-----------------------|--------------------|
| Cash in County Treasury | \$ 80,056,184 | 78,842,352 |
| Cash in banks | <u>19,247,482</u> | <u>12,721,625</u> |
| Total cash | 99,303,666 | 91,563,977 |
| Investments | <u>468,153,671</u> | <u>514,821,742</u> |
| Total cash and investments | <u>\$ 567,457,337</u> | <u>606,385,719</u> |

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

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2003

deposits with financial institutions must be collateralized in an amount equal to 110% of uninsured deposits. At no time during the year did the value of the collateralized property fall below 110% of uninsured deposits.

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

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

At June 30, 2003, the District had cash in banks with a carrying value and bank balance of \$19,247,481 and \$36,769,196, respectively. Of the bank balance, \$345,440 was covered by federal depository insurance, of which \$36,423,756 was collateralized with securities held by the pledging financial institution's trust department, but not in the District's name. At June 30, 2002, the District had cash in banks with a carrying value and bank balance of \$12,721,625 and \$22,496,783, respectively. Of the bank balance, \$248,638 was covered by federal depository insurance, of which \$22,248,145 was collateralized with securities held by the pledging financial institution's trust department, but not in the District's name. The difference between the carrying value and the bank balance represents items in transit in the normal course of business and cash on hand.

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

At June 30, 2003 and 2002, the District's investments consist primarily of U.S. government securities and corporate notes and bonds which are carried at fair value, based on quoted market values.

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

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2003

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

| June 30, 2003 | | | | |
|------------------------------|-------------|----------------|----------|--------------------------|
| | <u>1</u> | <u>2</u> | <u>3</u> | <u>Fair market value</u> |
| Categorized – investments: | | | | |
| Marketable equity securities | \$ — | 321,779 | — | 321,779 |
| | <u>\$ —</u> | <u>321,779</u> | <u>—</u> | <u>321,779</u> |
| Noncategorized investments: | | | | |
| Master repurchase agreement | | | | 464,793,752 |
| Certificates of deposit | | | | 3,038,140 |
| Total investments | | | | <u>\$ 468,153,671</u> |
| Cash in County Treasury | | | | <u>\$ 80,056,184</u> |
| June 30, 2002 | | | | |
| | <u>1</u> | <u>2</u> | <u>3</u> | <u>Fair market value</u> |
| Categorized – investments: | | | | |
| Marketable equity securities | \$ — | 138,047 | — | 138,047 |
| | <u>\$ —</u> | <u>138,047</u> | <u>—</u> | <u>138,047</u> |
| Noncategorized investments: | | | | |
| Master repurchase agreement | | | | 512,295,000 |
| Certificates of deposit | | | | 2,239,549 |
| Investment in real estate | | | | 48,993 |
| Other | | | | 100,153 |
| Total investments | | | | <u>\$ 514,821,742</u> |
| Cash in County Treasury | | | | <u>\$ 78,842,352</u> |

The District's noncategorized investments earned an interest rate of 4.53%.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2003

(4) Accounts, Notes and Other Receivables

Accounts receivable at June 30, 2003 and 2002 are summarized as follows:

| | <u>2003</u> | <u>2002</u> |
|---|----------------------|---------------------|
| Tax delinquencies | \$ 14,074,480 | 14,914,715 |
| Federal and state programs | 17,819,060 | 19,671,587 |
| State lottery | 2,508,817 | 2,225,176 |
| Interest receivable | 351,687 | 1,214,256 |
| Notes receivable | 2,815,000 | 4,867,936 |
| Accounts receivable – principal apportionment | — | 9,526,449 |
| Accounts receivable – campus students | 1,422,038 | 1,070,053 |
| Accounts receivable – credit memos | 1,448,335 | 3,621,190 |
| Accounts receivable – NSDL/nursing loans | 3,713,524 | 4,138,548 |
| Other | 9,022,028 | 8,344,453 |
| Less allowance for doubtful accounts | <u>(22,509,089)</u> | <u>(17,323,370)</u> |
| Accounts receivable, net | \$ <u>30,665,880</u> | <u>52,270,993</u> |

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

Tax delinquencies represent prior and current year unpaid/unreceived property taxes which were assessed and billed by Los Angeles County during the 2002/2003 year and prior. The District receives tax revenues from the County biannually in December and April. Any amounts which remain unpaid/unreceived by the District within 60 days of fiscal year-end are considered delinquent. The Los Angeles County board of supervisors is the taxing authority which levies and collects tax revenues.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2003

(5) Accounts Payable

Accounts payable at June 30, 2003 and 2002 are summarized as follows:

| | <u>2003</u> | <u>2002</u> |
|-------------------------------|----------------------|-------------------|
| L.A. Sheriff's Department | \$ 1,868,018 | 2,664,571 |
| Utilities | — | 807,021 |
| Principal apportionment | 3,402,912 | — |
| Payroll accrual | 9,122,649 | 9,107,739 |
| Interest payable | 2,591,686 | 3,126,612 |
| Grants | 5,537,420 | 4,644,421 |
| Medicare accrual | — | 659,055 |
| Election expense payable | 1,748,425 | — |
| Financial aid payable | 1,890,301 | 2,706,669 |
| Plumbing, piping, and roding | — | 1,637,471 |
| Capital outlay projects | 4,359,638 | — |
| Program management – DMJM/JGM | 6,558,988 | 3,775,000 |
| Claims payable | 287,222 | 700,000 |
| Board of Equalization | — | 559,808 |
| Vendors payable | 13,893,737 | 10,950,748 |
| Total | <u>\$ 51,260,996</u> | <u>41,339,115</u> |

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2003

(6) Capital Assets

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

| | <u>Balance at July 1, 2002</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance at June 30, 2003</u> |
|--|------------------------------------|---------------------|------------------|-------------------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 32,499,839 | — | — | 32,499,839 |
| Construction in process | 35,397,727 | 63,958,023 | — | 99,355,750 |
| Works of art | 518,000 | — | — | 518,000 |
| | <u>68,415,566</u> | <u>63,958,023</u> | <u>—</u> | <u>132,373,589</u> |
| Total capital assets, not being depreciated | | | | |
| Capital assets being depreciated: | | | | |
| Land improvements | 30,812,500 | 43,597 | — | 30,856,097 |
| Buildings | 286,104,044 | 4,434,988 | — | 290,539,032 |
| Equipment | 34,568,887 | 4,193,223 | — | 38,762,110 |
| Infrastructure | 2,895,800 | — | — | 2,895,800 |
| | <u>354,381,231</u> | <u>8,671,808</u> | <u>—</u> | <u>363,053,039</u> |
| Total capital assets being depreciated | | | | |
| Less accumulated depreciation | <u>(153,234,394)</u> | <u>(12,895,875)</u> | <u>—</u> | <u>(166,130,269)</u> |
| | | | | |
| Total capital assets being depreciated, net | <u>201,146,837</u> | <u>(4,224,067)</u> | <u>—</u> | <u>196,922,770</u> |
| | | | | |
| Total | <u>\$ 269,562,403</u> | <u>59,733,956</u> | <u>—</u> | <u>329,296,359</u> |

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2003

| | <u>Balance at July 1, 2001</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance at June 30, 2002</u> |
|--|------------------------------------|---------------------|------------------|-------------------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 18,651,839 | 13,848,000 | — | 32,499,839 |
| Construction in process | 7,901,159 | 27,496,568 | — | 35,397,727 |
| Works of art | 436,000 | 82,000 | — | 518,000 |
| | <u>26,988,998</u> | <u>41,426,568</u> | <u>—</u> | <u>68,415,566</u> |
| Total capital assets, not being depreciated | | | | |
| Capital assets being depreciated: | | | | |
| Land improvements | 30,812,500 | — | — | 30,812,500 |
| Buildings | 277,821,241 | 8,282,803 | — | 286,104,044 |
| Equipment | 32,076,960 | 2,512,338 | (20,411) | 34,568,887 |
| Infrastructure | 2,895,800 | — | — | 2,895,800 |
| | <u>343,606,501</u> | <u>10,795,141</u> | <u>(20,411)</u> | <u>354,381,231</u> |
| Total capital assets being depreciated | | | | |
| Less accumulated depreciation | <u>(142,265,932)</u> | <u>(10,968,462)</u> | <u>—</u> | <u>(153,234,394)</u> |
| Total capital assets being depreciated, net | <u>201,340,569</u> | <u>(173,321)</u> | <u>(20,411)</u> | <u>201,146,837</u> |
| Total | <u>\$ 228,329,567</u> | <u>41,253,247</u> | <u>(20,411)</u> | <u>269,562,403</u> |

(7) Lease Commitments

The District leases various assets, as lessee, under operating lease agreements. Lease payments under operating leases (including month-to-month leases) approximating \$5,599,795 have been charged as expenses in the accompanying combined statement of revenues, expenditures, and changes in net assets.

At June 30, 2003, minimum lease commitments under long-term lease contracts, including the District's central office lease, were as follows:

| | |
|----------------------|----------------------|
| Year ending June 30: | |
| 2004 | \$ 4,231,346 |
| 2005 | 3,845,662 |
| 2006 | 3,711,200 |
| 2007 | 3,713,876 |
| 2008 | 3,521,955 |
| 2009-2013 | 13,701,622 |
| 2014-2018 | 949,296 |
| | <u>33,674,957</u> |
| Total | <u>\$ 33,674,957</u> |

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2003

(8) Employee Retirement Systems

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

(a) *Plan Descriptions and Provisions*

State Teachers' Retirement System (STRS) – All full-time certificated employees participate in the STRS, a cost-sharing multiple-employer contributory public employee retirement system defined benefit pension plan. An actuarial valuation by employer is not available. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

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

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

California Public Employees' Retirement System (PERS) – All full-time classified employees participate in the PERS, an agent multiple-employer contributory public employee retirement system defined benefit pension plan that acts as a common investment and administrative agent for participating public entities within the state of California. The Los Angeles Community College District is part of a cost-sharing pool within PERS. An actuarial valuation by employer is not available. One actuarial valuation is performed for those employers participating in the pool, and the same contribution rate applies to each.

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

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

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2003

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

(b) Contributions Required and Contributions Made

For fiscal 2003, the District is required by statute to contribute 8.25%, 2.771%, and 0% of gross salary expenditures to STRS, PERS (pooled), and PERS (security), respectively. Participants are required to contribute 8% and 7% of gross salary to STRS and PERS, respectively.

The District's contributions for the years ended June 30, 2003, 2002, and 2001 are as follows:

| | <u>STRS</u> | <u>contributions</u> |
|------|---------------|----------------------|
| 2003 | \$ 14,019,805 | 100% |
| 2002 | 11,435,718 | 100 |
| 2001 | 10,191,800 | 100 |

The District's contribution represented 0.61% of the total contributions required of all participating employers in STRS. The District's employer contributions to STRS and PERS met the required contribution rate established by law.

(c) Postretirement Benefits

The District provides postretirement health benefits to its retirees who meet plan eligibility requirements. Substantially all retirees of the District may become eligible for those benefits if they reach the appropriate eligibility requirements for retirement while working for the District. The retirement eligibility for PERS' retirees is a minimum age of 50 and minimum years of service of five. The retirement eligibility for STRS retirees is a minimum age of 55 and minimum years of service of five or a minimum age of 50 with 30 years of service. In addition, the District also has minimum continuous service requirements for retirement that range from 7 years to 20 years, which vary by employee class. The District's expenditures for postretirement health benefits are recognized when incurred. During the fiscal years ended June 30, 2003 and 2002, expenditures of \$16,667,587 and \$14,256,708, respectively, were recognized for postretirement health benefits.

(d) Public Agency Retirement System (PARS)

The Omnibus Budget Reconciliation Act of 1990 (Section 11332) extends the Social Security tax to state and local government employees not participating in a qualified public retirement system. Internal Revenue Code 3121 (b)(7)(F) proposed regulations allows employers to establish an alternative retirement system in lieu of Social Security taxes. Such an alternative system was authorized on June 26, 1991 to be established by the end of calendar year 1991 for certain employees not participating in STRS or PERS.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2003

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

Total contributions to PARS are 7.50%. The employer contribution is 4.00% and the employee contribution is 3.50%. Contributions are vested 100% for employees. Employees can receive benefits when they retire at age 60, become disabled, terminate employment, or die.

(e) Contributions Required and Contributions Made

The District contribution information for the years ended June 30, 2003 and 2002 is as follows:

| | <u>Total employee contributions</u> | <u>Total employer contributions</u> |
|-------|---|---|
| 2003: | | |
| PARS | \$ 1,064,387 | 1,392,368 |
| 2002: | | |
| PARS | 1,514,895 | 1,923,942 |

(9) Commitments and Contingencies

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

The District is a defendant in various lawsuits at June 30, 2003. Although the outcome of these lawsuits is not presently determinable, in the opinion of management, based in part on the advice of counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the District or is adequately covered by insurance.

The District has entered into various contracts for the construction of facilities throughout the campuses. At June 30, 2003 and 2002, the total value of these contracts to be paid over the course of two years approximated \$30,900,000 and \$27,720,000, respectively.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2003

(10) Long-Term Liabilities

The following is a summary of long-term liabilities of the District for the years ended June 30, 2003 and 2002:

| | <u>Balance at July 1, 2002</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance at June 30, 2003</u> | <u>Due within one year</u> |
|---|------------------------------------|-------------------|---------------------|-------------------------------------|--------------------------------|
| Refunding certificates of participation | \$ 84,915,000 | 43,650,000 | (42,030,000) | 86,535,000 | 3,835,000 |
| General Obligation Bonds, 2001 Series A | 525,000,000 | — | (17,970,000) | 507,030,000 | 23,100,000 |
| Revenue bonds | 3,659,876 | — | (406,653) | 3,253,223 | 406,653 |
| Workers' compensation claims payable | 22,211,000 | 16,806,747 | (5,754,747) | 33,263,000 | 5,754,747 |
| General liability | 1,744,000 | 136,524 | (191,524) | 1,689,000 | 191,524 |
| Vacation benefits payable | 11,079,542 | 1,898,331 | (720,223) | 12,257,650 | 720,223 |
| Lease purchase financing | 8,580,506 | 2,318,789 | (908,790) | 9,990,505 | 1,180,926 |
| Total | \$ 657,189,924 | 64,810,391 | (67,981,937) | 654,018,378 | 35,189,073 |

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

(a) Refunding Certificates of Participation

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

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2003

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

The net proceeds of the advance refundings totaling \$64,865,000 (after payment of \$3,745,362 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. Treasury securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service requirements on the refunded COPs. As a result, the refunded COPs are considered to be defeased in substance, and therefore, the related debt, as well as the trust assets, have been removed from the District's financial statements.

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

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

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

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

On July 1, 2002 and August 1, 2002, the District issued 2002 Series A Refunding Certificates of Participation (RCOP) in the amount of \$43,650,000 with an average interest rate of 10% to partially refund the 1992 Series A Certificates of Participation in the amount of \$54,830,000, of which \$38,095,000 was refunded. The \$6,475,000 of the \$10,515,000, that was not eligible for refunding remaining outstanding for the 1992 COPs. The refunded RCOPs were previously issued to advance refund \$16,850,000, \$12,610,000, and \$28,860,000 of outstanding 1989 Series A Certificates of Participation (COP), 1989 Series B COPs, and 1990 Series A COPs with an average interest rate of 7.33%, 7.036%, and 6.287%, respectively. The refunded COPs were previously issued to finance the acquisition of a new Educational Service Center (ESC), the construction of Phase I of the new campus at Mission College, five construction projects at East L.A. College, Southwest College, and West L.A. College plus the acquisition of mainframe and peripheral computer equipment.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2003

Debt service requirements to maturity of the RCOPs at June 30, 2003 are as follows:

| Year ending June 30 | 1993 Series A | | 1999 Series A | | 2001 Series A | | 2002 Series A | |
|---------------------------|---------------|----------|---------------|-----------|---------------|------------|---------------|------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2004 | \$ 1,405,000 | 200,529 | 360,000 | 313,845 | 500,000 | 1,268,236 | 1,570,000 | 1,713,650 |
| 2005 | 1,500,000 | 124,975 | 375,000 | 297,308 | 515,000 | 1,253,011 | 2,010,000 | 1,695,005 |
| 2006 | 1,600,000 | 42,800 | 395,000 | 279,785 | 530,000 | 1,237,336 | 2,105,000 | 1,685,867 |
| 2007 | — | — | 410,000 | 261,065 | 550,000 | 1,220,449 | 2,550,000 | 1,666,603 |
| 2008 | — | — | — | — | — | — | 2,300,000 | 1,544,505 |
| 2009 – 2013 | — | — | 2,370,000 | 976,834 | 3,040,000 | 5,781,951 | 13,100,000 | 6,261,182 |
| 2014 – 2018 | — | — | 2,475,000 | 244,519 | 3,735,000 | 5,067,088 | 16,250,000 | 3,348,396 |
| 2019 – 2023 | — | — | — | — | 4,725,000 | 4,042,375 | 8,450,000 | 353,590 |
| 2024 – 2028 | — | — | — | — | 6,030,000 | 2,704,500 | — | — |
| 2029 – 2033 | — | — | — | — | 7,685,000 | 998,125 | — | — |
| Total | \$ 4,505,000 | 368,304 | 6,385,000 | 2,373,356 | 27,310,000 | 23,573,071 | 48,335,000 | 18,268,798 |

(b) General Obligation Bonds

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

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

Debt service requirements to maturity of the general obligation bonds at June 30, 2003 are as follows:

| Year ending June 30: | 2001 Series A | | |
|----------------------|----------------|-------------|-------------|
| | Principal | Interest | Total |
| 2004 | \$ 23,100,000 | 25,199,831 | 48,299,831 |
| 2005 | 10,000,000 | 24,537,831 | 34,537,831 |
| 2006 | 3,655,000 | 24,269,300 | 27,924,300 |
| 2007 | 4,630,000 | 24,113,956 | 28,743,956 |
| 2008 | 5,670,000 | 23,920,831 | 29,590,831 |
| 2009 – 2013 | 46,620,000 | 114,736,858 | 161,356,858 |
| 2014 – 2018 | 88,155,000 | 97,673,213 | 185,828,213 |
| 2019 – 2023 | 148,575,000 | 65,671,551 | 214,246,551 |
| 2024 – 2026 | 176,625,000 | 18,294,875 | 194,919,875 |
| Total | \$ 507,030,000 | 418,418,246 | 925,448,246 |

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2003

(c) Revenue Bonds

On March 1, 1995, the District entered into the contract with the State of California, State Public Works Board, for participation in the sale of Energy and Water Efficiency Revenue Bonds Phase IV, Series 1995A, for funding of energy conservation design and construction projects at Los Angeles Pierce College in the amount of \$4,063,000. Until the termination date on October 1, 2010, the amount of \$285,000 will be withheld from the District's apportionment payments in order to satisfy the District's annual energy service contract obligation due on August 15 each year. At June 30, 2003 and 2002, \$2,280,000 and \$2,565,000 were outstanding, respectively.

On June 1, 1996, the District entered into the contract with the State of California, State Public Works Board, for participation in the sale of Energy and Water Efficiency Revenue Bonds Phase V, Series 1996 A, for funding of energy conservation design and construction projects at Los Angeles Southwest College in the amount of \$1,581,488. Until the termination date on August 1, 2010, the amount of \$121,653 will be withheld from the District's apportionment payments in order to satisfy the District's annual energy service contract obligation due on August 15 each year. At June 30, 2003 and 2002, the outstanding balance was \$973,223 and \$1,094,876, respectively.

Debt service requirements to maturity of the revenue bonds at June 30, 2003 are as follows:

| | Revenue Bonds | | |
|----------------------|----------------------|-----------------|--------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| Year ending June 30: | | | |
| 2004 | \$ 406,653 | — | 406,653 |
| 2005 | 406,653 | — | 406,653 |
| 2006 | 406,653 | — | 406,653 |
| 2007 | 406,653 | — | 406,653 |
| 2008 | 406,653 | — | 406,653 |
| 2009 – 2012 | 1,219,958 | — | 1,219,958 |
| Total | \$ 3,253,223 | — | 3,253,223 |

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2003

(d) Lease Purchase Financing

Debt service requirements to maturity of the lease purchase financing transactions at June 30, 2003 are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------|---------------------|------------------|-------------------|
| Year ending June 30: | | | |
| 2004 | \$ 1,180,926 | 541,964 | 1,722,890 |
| 2005 | 1,161,320 | 474,225 | 1,635,545 |
| 2006 | 1,098,822 | 406,919 | 1,505,741 |
| 2007 | 1,101,498 | 340,803 | 1,442,301 |
| 2008 | 909,577 | 300,376 | 1,209,953 |
| 2009 – 2013 | 3,834,407 | 656,667 | 4,491,074 |
| 2014-2018 | 703,957 | 120,557 | 824,514 |
| Total | \$ <u>9,990,507</u> | <u>2,841,511</u> | <u>12,832,018</u> |

(11) Risk Management

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is self-insured for up to a maximum of \$500,000 for each workers' compensation claim, \$250,000 per employment practices claims, \$100,000 for each general liability claim up to an amount aggregate of \$300,000; thereafter, self-insured decreases to \$10,000 per each claim up to \$25,000,000 per claim. The District currently reports all of its risk management activities in the statement of net assets. The balance of all outstanding workers' compensation and incurred general liability claims is estimated based on information provided by an outside actuarial study performed in 2002. The amount of the outstanding liability at June 30, 2003 and 2002 includes estimates of future claim payments for known cases as well as provisions for incurred but not reported claims and adverse development on known cases which occurred through that date.

Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using expected future investment yield assumption at 1.5%.

Changes in the balances of workers' compensation and general liability claims during fiscal years ended June 30, 2003 and 2002 were as follows:

| | <u>Balance at July 1, 2002</u> | <u>Current year claims and changes in estimates</u> | <u>Claim payments</u> | <u>Balance at June 30, 2003</u> |
|-----------------------|------------------------------------|---|---------------------------|-------------------------------------|
| Workers' compensation | \$ 22,211,000 | 16,806,747 | (5,754,747) | 33,263,000 |
| General liability | 1,744,000 | 136,524 | (191,524) | 1,689,000 |

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2003

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

During the years ended June 30, 2003 and 2002, the District made total premium payments of approximately \$1,108,841 and \$665,074, respectively, relating to both general liability and property claims.

(12) Subsequent Events

On July 1, 2003, the District issued 32,130,000 of 2003-2004 Tax Revenue Anticipation Notes (TRANS) maturing on July 25, 2004 at an interest rate of 2.0%. The notes are to be repaid from unrestricted monies such as taxes, income, revenues, cash receipts, and other monies intended as receipts for the General Fund of the District. The purpose of the issue was to provide funds to pay budgeted expenses, including current operating and other expenses and obligations of the District, prior to the receipt of certain anticipated taxes and other revenues received during the District's 2003-2004 fiscal year. The principal amount of the note, together with the interest, is payable in equal amounts during January and April 2004.

On July 29, 2003, the District issued \$189,685,000 Series A, B, and C- General Obligation Bonds with various interest rates ranging from 2% to 5%, for Proposition AA, \$980,000,000, which was passed by voters on May 20, 2003. The Bond measure was designed to finance and refinance construction, building acquisition, equipment, and improvement of college and support facilities at the various campuses of the District and refinance other outstanding debts of the District and colleges. The District is in a major capital construction program that will continue for the next several years.

On August 12, 2003, the District made a prepayment on certain Certificates of Participation totaling \$31,893,479 as follows: 1999 Energy Retrofit Project \$1,607,101, 2001 Series A \$25,710,210, and 2002 Series A of \$4,576,168.

On September 2, 2003, the District offered to its employees the 457(b) Deferred Compensation Plan and to every part-time faculty member who is not a mandatory CalSTRS Defined Benefit Program member the option of participating in one of the following three retirement plans:

- (a) The CalSTRS Cash Balance Benefit Program with the employee contributing 3.75% of his or her creditable earnings and the District contributing 4.25% of the employee's creditable earnings
- (b) The CalSTRS Defined Benefit Program with the employee contributing 8% of his or her creditable earnings and the District contributing 8.25% of the employee's creditable earnings
- (c) The Public Agency Retirement System (PARS) with the employee contributing 3.5% of his or her creditable earnings and the District contributing 4% of the employee's creditable earnings.

SUPPLEMENTAL FINANCIAL INFORMATION

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LOS ANGELES COMMUNITY COLLEGE DISTRICT

General Fund

Balance Sheet

June 30, 2003

Assets

| | |
|--|---------------|
| Cash in County Treasury | \$ 35,573,817 |
| Cash in banks | 7,457,889 |
| Cash in revolving fund | 164,012 |
| Investments | 321,779 |
| Accounts, notes, interest, and loans receivable, net | 13,776,298 |
| Due from other funds | 11,519,186 |
| Prepaid expenses and other assets | 36,610 |
| | <hr/> |
| Total assets | \$ 68,849,591 |
| | <hr/> <hr/> |

Liabilities and Fund Equity

Liabilities:

| | |
|--------------------------------------|---------------|
| Accounts payable | \$ 31,665,963 |
| Due to other funds | 2,993,079 |
| Amounts held in trusts | 441,378 |
| Deferred revenue | 10,007,833 |
| General liability claims payable | 1,689,524 |
| Workers' compensation claims payable | 1,900,000 |
| | <hr/> |
| Total liabilities | 48,697,777 |
| | <hr/> |

Fund equity:

| | |
|-----------------------------------|---------------|
| Restricted | 12,514,194 |
| Unrestricted | 7,637,620 |
| | <hr/> |
| 0 Total fund equity | 20,151,814 |
| | <hr/> |
| Total liabilities and fund equity | \$ 68,849,591 |
| | <hr/> <hr/> |

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 2003

Revenues:

Federal revenues:

| | |
|--|--------------|
| Higher Education Acts | \$ 8,356,447 |
| Job Training Partnership Act | 2,677,392 |
| Temporary Assistance for Needy Families (TANF) | 477,850 |
| Vocational Education Act | 5,899,395 |
| Veterans Education | 6,250 |
| College Work-Study | 2,422,353 |
| Seog | 107,167 |
| Pell (Beog) | 68,980 |
| Other | 542,239 |
| | <hr/> |
| Total federal revenues | 20,558,073 |

State revenues:

| | |
|--|-------------|
| State apportionments | 236,109,421 |
| Tax relief subvention | 1,574,420 |
| State lottery | 13,937,885 |
| Extended opportunity program | 5,745,969 |
| Disabled Students Programs and Services | 5,031,505 |
| CA Works Oppor. & Responsibility to Kids | 5,698,005 |
| Matriculation program | 4,684,457 |
| Instructional Equipment/Modem Technology | — |
| Telecommunication and Technology | 1,111,150 |
| Other | 84,385 |
| | <hr/> |
| Total state revenues | 273,977,197 |

Local revenues:

| | |
|--|-------------|
| Local property taxes | 118,818,417 |
| Interest | 466,224 |
| Enrollment fees | 9,526,409 |
| Tuition and fees, net of scholarship discounts and allowance | 11,579,660 |
| Community service fees | 6,092,572 |
| Parking fees | 2,490,684 |
| Health service fees | 1,598,103 |
| Student fees and charges | 741,502 |
| Other | 12,873,026 |
| | <hr/> |
| Total local revenues | 164,186,597 |
| | <hr/> |
| Total revenues | 458,721,867 |

Expenditures:

Current:

| | |
|---|--------------|
| Academic salaries | 197,174,843 |
| Classified salaries | 118,019,127 |
| Employee benefits | 82,453,592 |
| Books and supplies | 9,932,480 |
| Contract services, student grants, and other operating expenditures | 56,555,847 |
| Capital outlay and equipment replacement | 9,707,726 |
| | <hr/> |
| Total expenditures | 473,843,615 |
| | <hr/> |
| Deficit of revenues on expenditures | (15,121,748) |

Other financing uses:

| | |
|-------------------------------|--------------|
| Operating transfers out | (11,085,067) |
| | <hr/> |
| Net decrease in fund balances | (26,206,815) |

| | |
|--------------------------------|---------------|
| Fund balances at July 1, 2002 | 46,358,629 |
| | <hr/> |
| Fund balances at June 30, 2003 | \$ 20,151,814 |
| | <hr/> |

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Special Revenue Funds
 Combined Balance Sheet
 June 30, 2003

| Assets | Special Reserve Fund | Child Development Fund | Bookstore Fund | Cafeteria Fund | Total |
|--|-------------------------------------|---------------------------------------|---------------------------|---------------------------|-------------------|
| Cash in County Treasury | \$ 16,420,768 | 2,219,615 | — | — | 18,640,383 |
| Cash in banks | — | 128,413 | 527,673 | (24,929) | 631,157 |
| Cash in Revolving Fund | — | — | 129,415 | 7,884 | 137,299 |
| Accounts, notes, interest, and loans receivable, net of allowance for doubtful accounts | 8,696,159 | 1,277,445 | 898,206 | 42,020 | 10,913,830 |
| Due from other funds | 193,979 | 439,207 | 440,545 | 481,211 | 1,554,942 |
| Prepaid expenses | — | — | 1,525 | — | 1,525 |
| Inventory | — | — | 6,792,038 | 80,807 | 6,872,845 |
| Total assets | \$ 25,310,906 | 4,064,680 | 8,789,402 | 586,993 | 38,751,981 |
| Liabilities and Fund Equity | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 3,312,285 | 794,663 | 486,675 | 250,187 | 4,843,810 |
| Due to other funds | 604,284 | 3,016,709 | 2,768,923 | 400,889 | 6,790,805 |
| Deferred revenue | — | — | 141,702 | — | 141,702 |
| Total liabilities | 3,916,569 | 3,811,372 | 3,397,300 | 651,076 | 11,776,317 |
| Fund equity: | | | | | |
| Capital projects | 21,394,337 | — | — | — | 21,394,337 |
| Unrestricted | — | 253,308 | 4,547,044 | (64,083) | 4,736,269 |
| Reserve for program and capital expenditures | — | — | 845,058 | — | 845,058 |
| Total fund equity | 21,394,337 | 253,308 | 5,392,102 | (64,083) | 26,975,664 |
| Total liabilities and fund equity | \$ 25,310,906 | 4,064,680 | 8,789,402 | 586,993 | 38,751,981 |

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Special Revenue Funds

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

Year ended June 30, 2003

| | <u>Special Reserve Fund</u> | <u>Child Development Fund</u> | <u>Bookstore Fund</u> | <u>Cafeteria Fund</u> | <u>Total</u> |
|---|-------------------------------------|---------------------------------------|---------------------------|---------------------------|---------------------|
| Revenues: | | | | | |
| Federal revenues: | | | | | |
| Tuition and fees | \$ — | 134,404 | — | — | 134,404 |
| Other | 1,796,197 | — | — | 204,747 | 2,000,944 |
| Total federal revenues | <u>1,796,197</u> | <u>134,404</u> | <u>—</u> | <u>204,747</u> | <u>2,135,348</u> |
| State revenues: | | | | | |
| Child development program | — | 6,128,116 | — | — | 6,128,116 |
| Other | 13,545,470 | — | — | — | 13,545,470 |
| Total state revenues | <u>13,545,470</u> | <u>6,128,116</u> | <u>—</u> | <u>—</u> | <u>19,673,586</u> |
| Local revenues: | | | | | |
| Food service sales | — | — | — | 2,300,940 | 2,300,940 |
| Bookstore sales | — | — | 28,327,268 | — | 28,327,268 |
| Interest | 320,786 | — | 14,207 | — | 334,993 |
| Other | 3,659,333 | 47,847 | — | 294,225 | 4,001,405 |
| Total local revenues | <u>3,980,119</u> | <u>47,847</u> | <u>28,341,475</u> | <u>2,595,165</u> | <u>34,964,606</u> |
| Total revenues | <u>19,321,786</u> | <u>6,310,367</u> | <u>28,341,475</u> | <u>2,799,912</u> | <u>56,773,540</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| Academic salaries | 59,697 | 3,219,120 | — | — | 3,278,817 |
| Classified salaries | 1,921,849 | 1,355,799 | 4,174,757 | 1,144,918 | 8,597,323 |
| Employee benefits | 308,844 | 880,640 | 816,337 | 267,075 | 2,272,896 |
| Books and supplies | 13,241 | 246,787 | 20,851,846 | 1,838,564 | 22,950,438 |
| Contract services, student grant, and other operating expenditures | 10,751,328 | 862,715 | 3,222,800 | 10,964 | 14,847,807 |
| Utilities | — | 2,452 | 286,226 | 2,400 | 291,078 |
| Other | — | 263,906 | 1,599,433 | (136,047) | 1,727,292 |
| Capital outlay and equipment replacement: | | | | | |
| Land | — | — | (106) | — | (106) |
| Building | 12,209,475 | — | 49,471 | 3,797 | 12,262,743 |
| Equipment | 413,939 | 105,914 | 383,578 | 22,503 | 925,934 |
| Total expenditures | <u>25,678,373</u> | <u>6,937,333</u> | <u>31,384,342</u> | <u>3,154,174</u> | <u>67,154,222</u> |
| Deficit of revenues over expenditures | (6,356,587) | (626,966) | (3,042,867) | (354,262) | (10,380,682) |
| Other financing sources: | | | | | |
| Transfers in | 3,866,338 | 810,938 | — | 475,267 | 5,152,543 |
| Transfers out | (7,598,276) | — | (411,276) | — | (8,009,552) |
| Net increase (decrease) in fund balances | <u>(10,088,525)</u> | <u>183,972</u> | <u>(3,454,143)</u> | <u>121,005</u> | <u>(13,237,691)</u> |
| Fund balances at July 1, 2002 | 31,482,862 | 69,336 | 8,846,245 | (185,088) | 40,213,355 |
| Fund balances at June 30, 2003 | <u>\$ 21,394,337</u> | <u>253,308</u> | <u>5,392,102</u> | <u>(64,083)</u> | <u>26,975,664</u> |

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Debt Service Fund

Balance Sheet

June 30, 2003

Assets

| | | |
|------------------------|----|--------------------------|
| Cash held with trustee | \$ | 60,569,332 |
| Due from other funds | | <u>887,271</u> |
| Total assets | \$ | <u><u>61,456,603</u></u> |

Liabilities and Fund Equity

Liabilities:

| | | |
|---|--|-------------------|
| Reserve for refunding certificates of participation | | <u>24,569,964</u> |
| Total liabilities | | <u>24,569,964</u> |

Fund equity:

| | | |
|-----------------------------------|----|--------------------------|
| Capital projects | | 25,043,401 |
| Debt service | | <u>11,843,238</u> |
| Total fund equity | | <u>36,886,639</u> |
| Total liabilities and fund equity | \$ | <u><u>61,456,603</u></u> |

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Debt Service Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 2003

| | | |
|--|--|----------------------|
| Revenue: | | |
| Interest | | \$ 1,523,592 |
| Total local revenues | | <u>1,523,592</u> |
| Expenditures: | | |
| Current: | | |
| Contracted services and other operating expenditures | | 3,506,207 |
| Debt service: | | |
| Principal | | 42,030,000 |
| Interest | | <u>4,331,558</u> |
| Total expenditures | | <u>49,867,765</u> |
| Deficit of revenues over expenditures | | <u>(48,344,173)</u> |
| Other financing sources: | | |
| Transfers in | | 15,546,802 |
| Proceeds from issuance of debt | | <u>43,650,000</u> |
| Total other financing sources | | <u>59,196,802</u> |
| Increase in fund balances | | 10,852,629 |
| Fund balances at July 1, 2002 | | <u>26,034,010</u> |
| Fund balances at June 30, 2003 | | <u>\$ 36,886,639</u> |

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Building Fund

Balance Sheet

June 30, 2003

Assets

| | | |
|--|----|---------------------------|
| Cash in County Treasury | \$ | 25,705,921 |
| Cash in banks | | 3,010,715 |
| Investments | | 464,793,752 |
| Accounts, notes, interest, and loans receivable, net of allowance for doubtful accounts | | <u>134,169</u> |
| Total assets | \$ | <u><u>493,644,557</u></u> |

Liabilities and Fund Equity

| | | |
|-----------------------------------|----|---------------------------|
| Liabilities: | | |
| Accounts payable | \$ | <u>12,312,271</u> |
| Total liabilities | | <u>12,312,271</u> |
| Fund equity: | | |
| Reserved for capital expenditures | | <u>481,332,286</u> |
| Total fund equity | | <u>481,332,286</u> |
| Total liabilities and fund equity | \$ | <u><u>493,644,557</u></u> |

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Building Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 2003

| | |
|--|------------------------------|
| Local revenues: | |
| Interest | \$ 22,654,890 |
| Total revenues | <u>22,654,890</u> |
| Expenditures: | |
| Contract services, student grant, and other operating expenditures | 7,913,199 |
| Capital outlay and equipment replacement: | |
| Buildings | 818 |
| Construction in progress | 54,904,304 |
| Other | <u>1,604,357</u> |
| Total expenditures | <u>64,422,678</u> |
| Net decrease in fund balances | (41,767,788) |
| Fund balances at July 1, 2002 | <u>523,100,074</u> |
| Fund balances at June 30, 2003 | <u><u>\$ 481,332,286</u></u> |

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Expendable Trust Fund – Associated Student Organization Funds and Agency Funds

Combined Balance Sheet

June 30, 2003

| | East Los Angeles College | Los Angeles City College | Los Angeles Harbor College | Los Angeles Mission College | Los Angeles Pierce College | Los Angeles Southwest College | Los Angeles Trade Technical College | Los Angeles Valley College | West Los Angeles College | Total |
|--|--------------------------------|-----------------------------|----------------------------------|-----------------------------------|----------------------------------|-------------------------------------|--|----------------------------------|--------------------------------|---------------------|
| Assets | | | | | | | | | | |
| Cash in banks | \$ 281,359 | 323,198 | 13,811 | 166,481 | 98,541 | 36,820 | 1,065,209 | 1,221,313 | 418,826 | 3,625,558 |
| Investments | 1,221,893 | — | 358,961 | — | 891,461 | 57,842 | 506,225 | 1,758 | — | 3,038,140 |
| Accounts, notes, interest, and receivable, net of allowance for doubtful accounts | 5,503 | 20,571 | — | 378 | 803 | 33,134 | — | — | — | 60,389 |
| Capital assets | 31,169 | — | 2,029 | — | 183,788 | 48,994 | — | 181,517 | 49,819 | 497,316 |
| | <u>\$ 1,539,924</u> | <u>343,769</u> | <u>374,801</u> | <u>166,859</u> | <u>1,174,593</u> | <u>176,790</u> | <u>1,571,434</u> | <u>1,404,588</u> | <u>468,645</u> | <u>7,221,403</u> |
| Liabilities and Fund Equity | | | | | | | | | | |
| Liabilities: | | | | | | | | | | |
| Accounts payable | \$ 514 | 13,204 | — | 350 | 6,437 | 9,594 | 89,142 | 418,022 | 11,292 | 548,555 |
| Deferred revenue | 12,068 | — | — | — | — | — | — | — | 1,201 | 13,269 |
| Long-term liabilities (note 2) | — | — | — | — | — | — | 648,720 | — | — | 648,720 |
| Scholarship and trust | 1,293,297 | 10,861 | 8,908 | 97,002 | 516,688 | 80,676 | — | — | 265,952 | 2,273,384 |
| Total liabilities | <u>1,305,879</u> | <u>24,065</u> | <u>8,908</u> | <u>97,352</u> | <u>523,125</u> | <u>90,270</u> | <u>737,862</u> | <u>418,022</u> | <u>278,445</u> | <u>3,483,928</u> |
| Fund equity: | | | | | | | | | | |
| Investment in fixed assets | 31,169 | — | 2,029 | — | 183,788 | 48,994 | — | 181,517 | 43,613 | 491,110 |
| Fund balances – designated for future expenditures | 202,876 | 319,704 | 363,864 | 69,507 | 467,680 | 37,526 | 833,572 | 805,049 | 146,587 | 3,246,365 |
| Total fund equity | <u>234,045</u> | <u>319,704</u> | <u>365,893</u> | <u>69,507</u> | <u>651,468</u> | <u>86,520</u> | <u>833,572</u> | <u>986,566</u> | <u>190,200</u> | <u>3,737,475</u> |
| Total liabilities and fund equity | <u>\$ 1,539,924</u> | <u>\$ 343,769</u> | <u>\$ 374,801</u> | <u>\$ 166,859</u> | <u>\$ 1,174,593</u> | <u>\$ 176,790</u> | <u>\$ 1,571,434</u> | <u>\$ 1,404,588</u> | <u>\$ 468,645</u> | <u>\$ 7,221,403</u> |

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Expendable Trust Fund – Associated Student Organization Funds and Agency Funds

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

Year ended June 30, 2003

| | East Los Angeles College | Los Angeles City College | Los Angeles Harbor College | Los Angeles Mission College | Los Angeles Pierce College | Los Angeles Southwest College | Los Angeles Trade Technical College | Los Angeles Valley College | West Los Angeles College | Total |
|---|--------------------------------|-----------------------------|----------------------------------|-----------------------------------|----------------------------------|-------------------------------------|--|----------------------------------|--------------------------------|-----------|
| Revenues: | | | | | | | | | | |
| Interest | 1,976 | 1,926 | 5,793 | 1,153 | 12,751 | 521 | 27,759 | 38,758 | 3,529 | 94,166 |
| Other | 75,810 | 226,554 | 32,257 | 84,336 | 160,650 | 33,823 | 67,876 | 44,511 | 122,489 | 848,306 |
| Total revenues | 77,786 | 228,480 | 38,050 | 85,489 | 173,401 | 34,344 | 95,635 | 83,269 | 126,018 | 942,472 |
| Expenditures: | | | | | | | | | | |
| Contract services and other operating expenditures | 60,667 | 70,292 | 66,827 | 15,982 | 167,175 | 15,499 | 231,009 | 84,453 | 81,205 | 793,109 |
| Total expenditures | 60,667 | 70,292 | 66,827 | 15,982 | 167,175 | 15,499 | 231,009 | 84,453 | 81,205 | 793,109 |
| Net increase (decrease) in fund balances | 17,119 | 158,188 | (28,777) | 69,507 | 6,226 | 18,845 | (135,374) | (1,184) | 44,813 | 149,363 |
| Fund balances at July 1, 2002 | 216,926 | 161,516 | 394,670 | — | 645,242 | 67,675 | 968,946 | 987,750 | 145,387 | 3,588,112 |
| Fund balances at June 30, 2003 | 234,045 | 319,704 | 365,893 | 69,507 | 651,468 | 86,520 | 833,572 | 986,566 | 190,200 | 3,737,475 |

See accompanying independent auditors' report.

OTHER SUPPLEMENTAL INFORMATION

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LOS ANGELES COMMUNITY COLLEGE DISTRICT

Organization

June 30, 2003

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

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

The board of trustees for the fiscal year ended June 30, 2003 was comprised of the following members:

| Board of trustees | | |
|--------------------------|----------------|---------------------|
| Name | Office | Term expires |
| Mona Field | President | June 2007 |
| Georgia L. Mercer | Vice President | June 2007 |
| Sylvia Scott-Hayes | Member | June 2007 |
| Warren T. Furutani | Member | June 2007 |
| Kelly G. Candaele | Member | June 2005 |
| Nancy S. Pearlman | Member | June 2005 |
| Michael D. Waxman | Member | June 2005 |
| Stacey L. McMullen | Student Member | May 2004 |

Administration

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

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Organization

June 30, 2003

College Presidents

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

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Full-Time Equivalent Students and Apprenticeship Clock Hours

Year ended June 30, 2003

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

| | <u>Resident reported data</u> | <u>Nonresident reported data</u> |
|--|-----------------------------------|--------------------------------------|
| Categories: | | |
| Credit full-time equivalent students (FTES): | | |
| Weekly census | 70,754 | 2,612 |
| Daily census | 7,655 | 201 |
| Actual hours of attendance | 4,119 | 45 |
| Independent study/work experience | 926 | 9 |
| Summer intercession | 5,829 | 162 |
| Total | <u>89,283</u> | <u>3,029</u> |
| Noncredit FTES: | | |
| Actual hours of attendance | 6,260 | |
| Summer intercession | 1,185 | |
| Total | <u>7,445</u> | |
| Fall census credit student headcount | 128,013 | |
| Gross square footage – existing facilities | 5,018,711 | |
| FTES in leased (or rented) space of less than 100% | 1,420 | |
| Apprenticeship clock hours | | |
| | Total hours | |
| | annual report | |
| <u>Reporting periods</u> | | |
| July 1, 2002 – December 31, 2002 | 17,389 | |
| January 1, 2003 – April 15, 2003 | — | |
| April 16, 2003 – June 30, 2003 | 18,232 | |
| | <u>35,621</u> | |

LOS ANGELES COMMUNITY COLLEGE DISTRICT
Reconciliation of Annual Financial and Budget Report (CCFS 311)
Year ended June 30, 2003

| | Balance |
|--|----------------|
| June 30, 2003 total net assets per annual financial budget report | \$ 584,052,101 |
| Adjustments and reclassifications increasing (decreasing) fund balance: | |
| Booked to adjust the prior year's fund balance: | |
| To reinstate prior year debt | (650,648,225) |
| To adjust prior year workers' compensation | (4,011,000) |
| To adjust prior year deferred lease payable | 3,291,201 |
| To reinstate prior year fixed assets | 269,167,000 |
| To adjust for prior year COPs proceeds | 24,569,965 |
| To record prior year deferred revenue and other liability | (8,225,945) |
| To reverse prior year receivable | (11,996) |
| To correct prior year bond costs | (257,798) |
| To accrue for prior year interest | (1,612,746) |
| To reclass prior year reserve to equity – part-time faculty health insurance | 772,346 |
| To reclass prior year reserve to equity – COPs proceeds | 6,451,183 |
| To reclass prior year reserve to equity – bookstore fund | 3,044,027 |
| | 226,580,113 |
| June 30, 2003 unaudited ending fund balance | |
| Current period's audit adjustments: | |
| To record deferred enrollment fees | (1,099,751) |
| To record general liability expense based on the actuarial study | (1,689,524) |
| To write off old accounts receivable | (453,154) |
| To establish a reserve for accounts receivable | (9,774,234) |
| To reclass prior year reserve to equity – bookstore fund | 845,058 |
| To record bookstore inventory and facility reserve in equity | (2,167,892) |
| To record current year additions to workers' compensation | (16,806,747) |
| To record current year additions to compensated absences | (1,898,331) |
| To record current year depreciation expense | (12,895,875) |
| To record current year additions to workers' compensation and compensated absences | 6,474,970 |
| To record current year capital asset additions | 70,209,129 |
| To record current year interest payment on general obligation bonds | 17,970,000 |
| To reverse current year expense for principal payments on debt | 3,077,467 |
| To record net change in accrued interest as of June 30, 2003 | (505,496) |
| | 51,285,620 |
| June 30, 2003 audit adjusted ending fund balance | \$ 277,865,733 |

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2003

| General Fund | Federal CFDA or project number | Revenue recognized | | | Expenditures | |
|--|---|--------------------|--------------|-------|--------------|------------|
| | | Federal | State | Total | | |
| U.S. Department of Education: | | | | | | |
| Direct programs: | | | | | | |
| Higher Education Act: | | | | | | |
| | Strengthening institutions | 84.031 | \$ 4,045,401 | — | 4,045,401 | 3,960,837 |
| | Student support services | 84.042 | 1,208,044 | — | 1,208,044 | 1,208,044 |
| | Upward Bound | 84.047 | 1,896,668 | — | 1,896,668 | 1,896,360 |
| | Comprehensive Program | 84.116 | 326,609 | — | 326,609 | 326,609 |
| Student financial assistance: | | | | | | |
| | Pell Grant | 84.063 | 63,785 | — | 63,785 | 87,336 |
| | FSEOG | 84.007 | 107,167 | — | 107,167 | 108,673 |
| | Federal work-study | 84.033 | 2,422,353 | — | 2,422,353 | 2,293,307 |
| Pass-through State: | | | | | | |
| Vocational and Applied Technology Education Act: | | | | | | |
| | Title IC | 84.048 | 4,870,984 | — | 4,870,984 | 4,680,826 |
| | Title II | 84.048 | 755,708 | — | 755,708 | 771,848 |
| | Title II | 84.243 | 248,254 | — | 248,254 | 282,666 |
| | Title IB | 84.048 | 3,824 | — | 3,824 | 1,301 |
| | Subtotal U.S. Department of Education | | 15,948,797 | — | 15,948,797 | 15,617,807 |
| U.S. Department of Labor: | | | | | | |
| Pass-through City: | | | | | | |
| | Welfare to Work Project – 101628 | 17.253 | 319,786 | — | 319,786 | 102,227 |
| | Welfare to Work Project – 101674 | 17.253 | 18,426 | — | 18,426 | 18,426 |
| | Welfare to Work Project – 102585 | 17.253 | 53,972 | — | 53,972 | 53,972 |
| | Welfare to Work Project – CF21927 | 17.253 | 22,775 | — | 22,775 | 23,290 |
| | WTW Child Care Service Promo – 101664 | 17.253 | 3,856 | — | 3,856 | 3,856 |
| | WIA City of Inglewood Voucher System | 17.257 | 452,899 | — | 452,899 | 670,459 |
| | WIA Catholic Charities – 11-7009 | 17.257 | 17 | — | 17 | 17 |
| | WIA | 17.257 | 268,011 | — | 268,011 | 274,160 |
| | WIA Com Career Title I – Adult – 101896 | 17.258 | 605,613 | — | 605,613 | 605,613 |
| | WIA Com Career Title I – Dislocated – 101896 | 17.260 | 576,470 | — | 576,470 | 574,891 |
| | Subtotal pass-through City | | 2,321,825 | — | 2,321,825 | 2,326,911 |
| Pass-through County: | | | | | | |
| | WIA Community Jobs Project, Probation | 17.257 | 248,036 | — | 248,036 | 248,036 |
| | Subtotal pass-through County | | 248,036 | — | 248,036 | 248,036 |
| | Subtotal U.S. Department of Labor | | 2,569,861 | — | 2,569,861 | 2,574,947 |
| U.S. Department of Health and Human Services: | | | | | | |
| Direct program: | | | | | | |
| | Nursing Loan Program | | 93,358 | — | 93,358 | 301,403 |
| Pass-through National Collegiate Association: | | | | | | |
| | National Youth Sports | 93.570 | 77,805 | — | 77,805 | 88,013 |
| | Subtotal U.S. Department of Health and Human Services | | 171,163 | — | 171,163 | 389,416 |
| National Science Foundation: | | | | | | |
| Direct programs: | | | | | | |
| | Chemical Technology | 47.076 | 123,196 | — | 123,196 | 123,196 |
| | Advanced Technology Education | 47.076 | — | — | — | 6,940 |
| | Tech Math for Tomorrow | 47.076 | 17,078 | — | 17,078 | 17,078 |
| | Subtotal National Science Foundation | | 140,274 | — | 140,274 | 147,214 |
| U.S. Department of Housing and Urban Development: | | | | | | |
| Direct programs: | | | | | | |
| | Hispanic Serving Institution | 14.514 | 669,850 | — | 669,850 | 669,850 |
| | Child Development Work-Study | 14.512 | 85,631 | — | 85,631 | 85,631 |
| | Subtotal U.S. Department of Housing and Urban Development | | 755,481 | — | 755,481 | 755,481 |
| U.S. Department of State – Bureau of Educational and Cultural Affairs: | | | | | | |
| | TRIO | 84.344 | 222,966 | — | 222,966 | 222,966 |
| | Subtotal U.S. Department of State | | 222,966 | — | 222,966 | 222,966 |
| | Total federal | | 19,808,542 | — | 19,808,542 | 19,707,831 |

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2003

| | Federal CFDA or project number | Revenue recognized | | | Expenditures |
|---|---|--------------------|------------|-------------|--------------|
| | | Federal | State | Total | |
| State assistance programs: | | | | | |
| Disabled Students Program and Services | \$ | — | 5,031,505 | 5,031,505 | 5,338,883 |
| State Matriculation | | — | 4,609,457 | 4,609,457 | 4,986,893 |
| Instructional Equipment/Modern Technology: | | | | | |
| One-Time Block Grant | | — | — | — | 1,736,486 |
| Instructional Equipment/Deferred Maintenance | | — | 1,526,125 | 1,526,125 | 1,136,039 |
| Extended Opportunity Program and Services | | 83,592 | 5,745,969 | 5,829,561 | 5,849,650 |
| Temporary Assistance Needy Families Programs | | — | 955,700 | 955,700 | 897,693 |
| CalWORKS Program, 2000-2001 | | — | 4,533,188 | 4,533,188 | 5,319,513 |
| Telecommunication and Technologies | | — | 1,186,150 | 1,186,150 | 1,868,390 |
| Economic Development | | 20,625 | 1,946,386 | 1,967,011 | 1,937,539 |
| Fund for Student Success | | — | 546,678 | 546,678 | 602,935 |
| Transfer and Articulation Program | | — | 96,216 | 96,216 | 88,087 |
| Other state assistance programs | | 254,572 | 7,226,031 | 7,480,603 | 6,732,883 |
| Total state assistance programs | | 358,789 | 33,403,405 | 33,762,194 | 36,494,991 |
| Total General Fund | | 20,167,331 | 33,403,405 | 53,570,736 | 56,202,822 |
| Special Revenue Fund | | | | | |
| U.S. Department of Agriculture: | | | | | |
| Direct programs – nonmajor programs: | | | | | |
| Summer Food Service | 10.555 | 204,747 | — | 204,747 | 204,747 |
| Subtotal U.S. Department of Agriculture | | 204,747 | — | 204,747 | 204,747 |
| U.S. Federal Emergency Management Administration | | | | | |
| Pass-through State: | | | | | |
| Hazard Mitigation Grants | 83.548 | 155,361 | — | 155,361 | 163,559 |
| Public Assistance Grants | 83.544 | 2,574,900 | — | 2,574,900 | 1,425,906 |
| Total U.S. Federal Emergency Management Administration | | 2,730,261 | — | 2,730,261 | 1,589,465 |
| Total federal | | 2,935,008 | — | 2,935,008 | 1,794,212 |
| State assistance programs: | | | | | |
| Child Development Pre-School Care | | — | 2,142,598 | 2,142,598 | 2,153,122 |
| Child Care Food Programs | | — | 228,220 | 228,220 | 204,571 |
| Child Development Services | | — | 189,166 | 189,166 | 190,239 |
| Child Development Block Grant | | — | 151,373 | 151,373 | 189,610 |
| Family Child Care Homes Network | | — | 1,172,231 | 1,172,231 | 1,170,347 |
| Total state assistance programs | | — | 3,883,588 | 3,883,588 | 3,907,889 |
| Total Special Revenue Fund | | 2,935,008 | 3,883,588 | 6,818,596 | 5,702,101 |
| Student Financial Aid Fund | | | | | |
| U.S. Department of Education: | | | | | |
| Pell Grant | 84.063 | 59,315,951 | — | 59,315,951 | 56,866,840 |
| Direct Loan | 84.268 | 4,058,483 | — | 4,058,483 | 4,073,629 |
| Federal Perkins Loan Program | 84.038 | — | — | — | 3,876,489 |
| FSEOG | 84.007 | 2,088,305 | — | 2,088,305 | 1,883,552 |
| Total U.S. Department of Education | | 65,462,739 | — | 65,462,739 | 66,700,510 |
| State assistance programs: | | | | | |
| CAL grants | | — | 4,552,393 | 4,552,393 | 4,579,979 |
| Extended Opportunity and Services | | — | 4,449,259 | 4,449,259 | 4,476,450 |
| Other programs | | — | — | — | — |
| Total state assistance programs | | — | 9,001,652 | 9,001,652 | 9,056,429 |
| Total Student Financial Aid Fund | | 65,462,739 | 9,001,652 | 74,464,391 | 75,756,939 |
| Grand total – Federal | \$ | 88,206,289 | — | 88,206,289 | 88,202,553 |
| Grand total – State assistance programs | \$ | 358,789 | 46,288,645 | 46,647,434 | 49,459,309 |
| Grand total – All funds (General, Special Revenue, Financial Aid) | \$ | 88,565,078 | 46,288,645 | 134,853,723 | 137,661,862 |

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT
Notes to Schedule of Expenditures of Federal and State Awards
Year ended June 30, 2003

(1) General

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

(2) Basis of Accounting

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

(3) Reconciliation to Financial Statements

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

| | | |
|---|----|-------------|
| Total state revenues in accompanying schedule | \$ | 46,288,645 |
| Add: | | |
| General Fund: | | |
| Basic and equalization aid | | 236,109,421 |
| State lottery | | 13,937,885 |
| Tax relief subvention | | 1,574,420 |
| Other state funds | | 1,187,900 |
| Total other General Fund revenues | | 252,809,626 |
| Special Revenue Fund: | | |
| Community College Construction Act | | 9,560,371 |
| Scheduled Maintenance Program | | 3,785,099 |
| State share of TANF | | 477,850 |
| Other state funds | | 2,527,250 |
| Total other Special Revenue Fund revenues | | 16,350,570 |
| Total state revenues in fund financial statements | \$ | 315,448,841 |

(4) Loan Advances

For the year ended June 30, 2003, the District advanced loans totaling \$495,779 for the Federal Perkins Loans Program (CFDA Number 84.038). As of June 30, 2003, the District had an outstanding loan balance of Federal Perkins Loans in the amount of \$3,876,489.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2003

(5) Nursing Student Loans

During the year ended June 30, 2003, the District processed approximately \$50,967 of new loans under the Student Nursing Program. As of June 30, 2003, the District had an outstanding loan balance of Nursing Student Loans in the amount of \$301,403.

**INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE
REQUIREMENTS**

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

Independent Auditors' Report on State Compliance Requirements

We have examined Los Angeles Community College District's (the District) compliance with the following compliance requirements based on Section 400 (revised July 2003) of the California Community Colleges' *Contracted District Audit Manual* during the year ended June 30, 2003, except the requirements discussed in the third paragraph of this report:

- Salaries of Classroom Instructors (50% law)
- Apportionment for Instructional Service Agreements/Contracts
- Required Data Elements
- Rendering Determination for Credit Loans
- Students Actively Enrolled
- Concurrent Enrollment of K-12 Students in Community College Credit Loans
- Uses of Matriculation Funds
- Allocation of Costs (DSP&S and EOP&S)
- EOPS Administrator/Director Requirements
- Gann Limit Calculation
- Enrollment Fee
- Scheduled Maintenance Program
- Open Enrollment.

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.

We did not audit the District's compliance with requirements governing the concurrent enrollment of K-12 students in community college credit courses. Based on representations from the District, the required audit procedures were performed by another accounting firm whose report has been provided to us. The District's compliance with the requirements governing the concurrent enrollment of K-12 students in community college credit courses was examined by other accountants whose report has been furnished to us. The report of the other accountants indicates that compliance with those requirements was examined in accordance with attestation standards established by the American Institute of Certified Public Accountants. Based on our review of the independent accountant's report on applying agreed upon procedures, we have determined that such report contains findings of noncompliance with the guidelines noted in Section 400 (revised July 2003) of the California Community College's *Contracted District Audit Manual*. However, the scope of our work did not extend to the compliance requirements tested by the other auditors. Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on compliance with the requirements governing the concurrent enrollment of K-12 students in community college credit courses.



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 and did not extend to the District's compliance with the requirements governing the concurrent enrollment of K-12 students in community college credit courses which was examined by other accountants.

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

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, the District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2003. However, the results of our examination procedures disclosed instances of noncompliance with those requirements which are described in the accompanying schedule of state findings and recommendations as findings S-03-01, S-03-02, and S-03-03.

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

KPMG LLP

December 31, 2003

ADDITIONAL REPORTS OF INDEPENDENT AUDITORS

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

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

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

We have audited the basic financial statements of the Los Angeles Community College District (the District) as of and for the year ended June 30, 2003 and have issued our report thereon, dated December 31, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

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

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.



A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions, that are also considered material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the board of trustees, management, and 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.

KPMG LLP

December 31, 2003



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

**Report on Compliance with Requirements Applicable
to Each Major Program and on Internal Control
over Compliance in Accordance with OMB Circular A-133**

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

Compliance

We have audited the compliance of the Los Angeles Community College District (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items F-03-1 through F-03-3.



Internal Control over Compliance

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

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

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

KPMG LLP

December 31, 2003

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

(1) Summary of Auditors' Results

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

Material weaknesses: **None noted.**

- (c) Noncompliance which is material to the basic financial statements: **None noted.**
- (d) Reportable conditions in internal control over major programs: **None reported.**

Material weaknesses: **None noted.**

- (e) The type of report issued on compliance for major programs: **Unqualified opinion.**
- (f) Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: **Yes, See Findings F-03-01 to F-03-03.**
- (g) Major programs:

- U.S. Department of Education Student Financial Assistance Cluster
 - CFDA #84.033 – Federal Work-Study Program
 - CFDA #84.063 – Federal Pell Grant Program
 - CFDA #84.268 – Federal Direct Loan Program
 - CFDA #84.007 – Federal Supplemental Educational Opportunity Grants (FSEOG)
 - CFDA #84.038 – Federal Perkins Loan Program
- Strengthening Institutions (CFDA #84.031).

- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$2,520,740.**
- (i) Auditee qualified as a low-risk auditee under Section .530 of OMB Circular A-133: **Yes.**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None Noted

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

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

Finding F-03-01 – Financial Aid Review

Programs affected:

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

Condition

We noted that a staff member is to review all student financial aid files to ensure the completeness of basic financial aid information, such as the FAFSA, Social Security number, and the like. The staff member is to sign off on the cover of each Financial Aid Packet to indicate his/her review. However, during our internal control test work at one of the colleges, we noted that 4 files out of 60 selections were not signed off by the staff member during the first review. The entire Financial Aid Packet goes through a secondary review by a Financial Aid Technician who verifies the accuracy and completeness of the documents and then signs off on the packet. We noted that a Financial Aid Technician is to review all student financial aid files to ensure the completeness of financial aid information, such as the ISIR, SAP Progress, and the like. The Financial Aid Technician is supposed to sign off on the cover of each Financial Aid Packet to indicate his/her review. However, we noted that 28 files out of 60 selections were not signed off by the Financial Aid Technician during the second review.

Recommendation

All student financial aid files should be reviewed by a staff member to ensure that all the required information is included in each file. The staff member should also sign off on each packet cover so that if any concerns arise with the reviewed file, the Financial Aid Manager will know who performed the review.

The financial aid office cannot be assured that all files are being properly reviewed if the Financial Aid Technician is not properly signing off on each student financial aid packet cover. Also, if any concerns arise with any of the reviewed files, the Financial Aid Manager will know who performed the review by looking at the Financial Aid Technician's initials.

We recommend that every student financial aid file is properly reviewed and signed off by the financial aid staff members. This review is important as it is better to resolve these obvious inaccuracies in the beginning phases of the financial aid process and it is also important to sign off on each packet so that the Financial Aid Manager can be assured that all files are properly reviewed.

We recommend that every student financial aid file be properly signed off by the Financial Aid Technician.

District's Response

The District concurs with the finding and will implement the recommendations noted above.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Questioned Costs

None.

Finding F-03-02 – Federal Work-Study Contracts

Program affected: Federal Work-Study Program (CFDA #84.033)

Condition

The District's colleges recontract with each outside organization every year for the Federal Work-Study (FWS) Program. The colleges initiate the contract request with the District office contracts department, who draws up the formal agreement and gets the required signatures. The original signed contracts are maintained at the District office, with copies at the campus level. At one of the colleges tested, we noted that the contracts between the District and the Benjamin Franklin Branch of the Los Angeles Public Library and the LA County Probation Department were only signed by the outside organizations and not by the District. We also noted that the college did not obtain a contract request form for two outside organizations, Benjamin Franklin Branch of the Los Angeles Public Library and the LA County Probation Department.

Criteria

Federal Work-Study students may be employed by the institution, a federal, state or local agency a private not-for-profit organization or a private for-profit organization. The employment must not, (1) impair existing service contracts, (2) displace employees, (3) fill jobs that are vacant because the employer's regular employees are on strike, or (4) involve the construction, operation, or maintenance of any part of a facility used or to be used for religious worship or sectarian instruction. The institution must enter into a written agreement with any agency or organization providing employment under the Federal Work Study (FWS) program (34 CFR Sections 675.20 and 675.23).

Recommendation

The college should complete the contract request form for each outside employer so that the college ensures that a contract is requested for off-campus employers. Additionally, the college should ensure that all contracts with outside employers have been fully executed and signed before students are allowed to work at these organizations. Failure to obtain a signature from the District on contracts that the college is involved with could indicate that the District has not reviewed or accepted such contract. It is important to have the District review and accept all contracts the college is involved with in case future problems arise.

District's Response

The District has the processes and procedures in place to require that all contracts with outside employers be executed before students are allowed to work. The District will ensure that all contracts with outside employers are properly executed.

Questioned Costs

None.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Finding F-03-03 – Return of Title IV Funds for Student Financial Aid

Programs affected:

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

Condition

At one of the colleges tested, we noted that the college's calculation of the return of Title IV funds for certain students was calculated incorrectly. As the District has made the assertion that it is an institution that is "not required to take attendance," the midpoint of the semester (i.e., 50% completion point) is only to be used when the student is dropped from his/her classes without notification. However, we noted that these calculations should not have been based on the 50% completion as the students either dropped courses in person or by telephone (as evidenced by the S004 printout).

Criteria

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

As noted above, the District has made the assertion that it is an institution that is "not required to take attendance." For institutions that are not required to take attendance, a student's withdrawal date is one of the following:

- The date the student began the withdrawal process prescribed by the institution.
- The date the student otherwise gave (in writing or orally) official notification of the institution of his or her intent to withdraw.
- If the student never began the withdrawal process or otherwise gave notice of intent to withdraw, the midpoint of the payment period or period of enrollment.
- If the student did not begin the withdrawal process or otherwise given notification (including notice from someone acting on the student's behalf) to the institution of the intent to withdraw because of circumstances beyond the student's control (e.g., illness, accident, grievous personal loss, and the like), the date based on the circumstances related to the withdrawal.
- If a student who was granted an approved leave of absence fails to return from the leave of absence, the date the institution determines the approved leave of absence began.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

- If a student takes an unapproved leave of absence, the date the student began the unapproved leave of absence.

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

Effect

By not consistently and accurately applying the Department of Education guidelines and criteria, the amount of Student Financial Aid that is owed back by the student and institution may be inaccurate. The amount of Title IV funds required to be returned by 7 of the 100 students tested would have changed by \$6,447 if the aforementioned college had followed the guidelines for institutions not required to take attendance and used the actual withdrawal dates communicated by the students.

Recommendation

It is recommended that the District ensure its current guidelines on the calculation for the Title IV funds to be returned are followed by the colleges within the District.

Questioned Costs

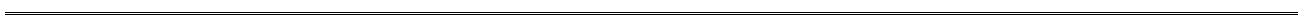
\$2,314

District Response

The District concurs with the finding and will ensure that all colleges apply its current guidelines on the calculation for the Title IV funds to be properly returned to the Department of Education.

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SCHEDULE OF STATE FINDINGS AND RECOMMENDATIONS



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LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of State Findings and Recommendations

Year ended June 30, 2003

| | <u>Finding numbers</u> | <u>Not implemented</u> | <u>Fully implemented</u> |
|--|----------------------------|----------------------------|------------------------------|
| State Findings and Recommendations | | | |
| Current Year Comment | | | |
| 1. Enrollment Fees | S-03-01 | X | |
| 2. Matriculation – College Matriculation Plans | S-03-02 | X | |
| 3. Students Actively Enrolled | S-03-03 | X | |
| Prior Year Comments | | | |
| 1. Enrollment Fees | S-02-01 | X | |
| 2. Apportionment for Instructional Service Agreements/Contracts – East Los Angeles College | S-02-02 | | X |
| 3. Students Actively Enrolled | S-03-03 | | X |
| 4. Students Actively Enrolled | S-02-04 | X | |
| 5. Matriculation – Matching Separate from Categorical Programs | S-02-05 | | X |
| 6. Matriculation – Level of Efforts | S-02-06 | | X |
| 7. Matriculation – Record Retention | S-02-07 | | X |
| 8. Payroll Procedures Manual | S-02-08 | | X |

Current Year State Findings and Recommendations

Finding S-03-01

Observation

Consistent with prior years, the District does not report part of fees collected for the summer term as revenues in the following fiscal year. The District reports fees collected for the summer terms as current revenue. It was noted that approximately \$1 million of summer fees collected and recorded as current revenue should have been deferred. An adjustment was recorded to properly reflect this amount on the District's basic financial statements.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of State Findings and Recommendations

Year ended June 30, 2003

Recommendation

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

District's Response

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

Finding S-03-02 – Matriculation – College Matriculation Plans

Observation

The District is required to expend matriculation funds in accordance and consistent with the District's campus state approved matriculation plans. The plans contain an outline of the activities that are being performed to carryout the matriculation program. These activities should be consistent with approved activities listed under *California Code of Regulation (CCR), Title 5, Chapter 6, Article 3 Matriculation Services, Section 55520, Required Services*. Reportable instances occur if claimed activities are not consistent with allowable activities. Per review of the District's Colleges' plans, it was noted that all activities are not consistent with "activities claimable against state matriculation funds." It was also noted that the State Chancellor's office made updates in activities claimable in 2003, which the District did not incorporate into their colleges plans. One college plan was last updated in 1990 and three others were last updated in 1994.

Effect

The District's colleges may be performing activities under their Matriculation Programs that are no longer allowable, thus may not claimable against the state matriculation funds.

Recommendation

We recommend that the District review their current Credit and Non-Credit Matriculation Plans against the current plan guidance and submit updates to the State Chancellor's Office accordingly to ensure compliance with State approved activities.

District Response

The District concurs with the finding and will implement as recommended.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of State Findings and Recommendations

Year ended June 30, 2003

Finding S-03-03 – Students Actively Enrolled

Observation

The total number of students counted for census purposes in the 72 course sections tested was 2,511. This number included 26 students who should have been excluded as they were not actively enrolled. There were also two exclusion rosters which could not be located that represented 18 and 22 students, respectively.

Effect

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

Recommendation

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

District's Response

Increased efforts by the Colleges have improved the timely collection of exclusion rosters; and Information Technology has developed two improvements to the process. Colleges can now identify sections with missing exclusion rosters on a computer screen rather than from printouts. Also, a field has been added to the District's section information files to record the status of processed exclusion rosters. In future terms, staff will more easily be able to identify, filter, sort, and update this information for improved monitoring and earlier intervention.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Prior Year State Findings

Year ended June 30, 2003

PRIOR YEAR STATE FINDINGS AND RECOMMENDATIONS

Finding S-02-01 – Enrollment Fees

Observation

Consistent with prior years, the District does not report part of fees collected for the summer term as revenues in the following fiscal year. The District reports fees collected for the summer terms as current revenue. It was noted that approximately \$1.09 million of summer fees collected and recorded as current revenue should have been deferred. An adjustment was recorded to properly reflect this amount on the District's basic financial statements.

Recommendation

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

District's Response – Current Status of Prior Year Management Letter Comment

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

This finding was repeated in the current year (see Finding S-03-01).

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Prior Year State Findings

Year ended June 30, 2003

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

Observation

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

Effect

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

Recommendation

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

District’s Response – Current Status of Prior Year Finding

The District has corrected this finding. The Fall Schedule 2003 on page 27 has the following statement printed under Administration of Justice offerings: “Additional Administration of Justice courses have been scheduled after publishing deadlines. Many of these are advanced courses that require prerequisites. A free supplementary list of these courses is available by calling 323-265-8834.”

For the Spring 2004 full schedule, the statement was omitted. But for the Spring 2004 schedule on the “ELAC. Edu” web site, the statement is listed under the Administration of Justice Department section. The statement is also blocked and has special notation. For the Spring 2004 mini schedule, the statement is listed on page 4.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Prior Year State Findings

Year ended June 30, 2003

Finding S-02-03 – Students Actively Enrolled

Observation

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

Effect

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

Recommendation

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

District’s Response – Current Status of Prior Year Finding

To facilitate checking, the Admissions and Records group recommended using a uniform naming convention of “Test” for both first and last name for such entries.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Prior Year State Findings

Year ended June 30, 2003

Finding S-02-04 – Students Actively Enrolled

Observation

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

Effect

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

Recommendation

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

District's Response – Current Status of Prior Year Finding

Increased efforts by the Colleges have improved the timely collection of exclusion rosters, and Information Technology has developed two improvements to the process. Colleges can now identify sections with missing exclusion rosters on a computer screen rather than from printouts. Also, a field has been added to the District's section information files to record the status of processed exclusion rosters. In future terms, staff will more easily be able to identify, filter, sort, and update this information for improved monitoring and earlier intervention.

This finding was repeated in the current year (see Finding S-03-03).

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Prior Year State Findings

Year ended June 30, 2003

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

Observation

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

Effect

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

Recommendation

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

District's Response – Current Status of Prior Year Finding

A procedure has been placed to track the matching requirements for the Colleges. It will be based on the matriculation-related expenditures/activities and in accordance with the state guidelines. These activities are tracked by functional areas and general ledger accounts. This process of tracking will segregate the expenses used for matching requirements in the General Fund.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Prior Year State Findings

Year ended June 30, 2003

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

Observation

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

Effect

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

Recommendation

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

District's Response – Current Status of Prior Year Finding

The District was able to identify from the District's archived database the related matriculation expenditures for fiscal year 1986/87. The related matriculation expenditures for fiscal year 2002-2003 were greater than fiscal year 1986-1987. The District has worked with the Colleges to monitor that this requirement has copies of reports submitted by the Colleges.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Prior Year State Findings

Year ended June 30, 2003

Finding S-02-07 – Matriculation – Record Retention

Observation

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

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

Effect

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

Recommendation

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

District's Response – Current Status of Prior Year Finding

The District was able to locate the missing expenditure reports. Copies of the last five-year period reports will be maintained in the District's files.

REPORT TO MANAGEMENT

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 Los Angeles, CA 90071-1568

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LOS ANGELES COMMUNITY COLLEGE DISTRICT

Report to Management

Year ended June 30, 2003

December 31, 2003

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

Members of the Board:

We have audited the basic financial statements of Los Angeles Community College District (the District) for the period ended June 30, 2003 and have issued our report thereon dated December 31, 2003. In planning and performing our audit of the basic financial statements of the District, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

A material weakness is a condition in which the design or operation of specific internal control components does not reduce to a relatively low level the risk that errors or fraud 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 internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. However, we noted no matters involving internal control and its operation that we consider to be material weaknesses as defined above.

During the completion of our procedures, we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized in the following report to management on pages 77 to 84.

* * * * *

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the organization gained during our work to make comments and suggestions that we hope will be useful to you.

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

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

Very truly yours,

KPMG LLP



LOS ANGELES COMMUNITY COLLEGE DISTRICT

Report to Management

Year ended June 30, 2003

| | <u>Not yet implemented</u> | <u>Partially implemented</u> | <u>Fully implemented</u> |
|--|--------------------------------|----------------------------------|------------------------------|
| Current Year Comments | | | |
| 1. Financial Reporting | X | | |
| 2. New Accounting Pronouncement – GASB Statement No. 39 | X | | |
| 3. Lack of Formal IT Strategic Plan | X | | |
| 4. SAP Application Security | X | | |
| 5. SAP Password Controls | X | | |
| Prior Year Comments Carried Forward to the Current Year | | | |
| 6. Capital Assets – Building Improvements | X | | |
| 7. Recording of Capital Leases | | X | |
| 8. Accurately Record Lease Information in Logbook | | X | |
| Current Status of Other Prior Year Comments | | | |
| Accounting | | | |
| 9. Schedule of Federal and State Awards | | | X |
| 10. Ensure Proper Accrual of Vacation Leave Earned but not taken | | | X |
| 11. Internal Audit Function/Audit Budget Committee | | | X |
| 12. Payroll Procedures Manual | | X | |
| Information Technology | | | |
| 13. Users Should Sign-off on Their User Acceptance Tests | | | X |

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Report to Management

Year ended June 30, 2003

| | <u>Not yet implemented</u> | <u>Partially implemented</u> | <u>Fully implemented</u> |
|--|--------------------------------|----------------------------------|------------------------------|
| <i>Security</i> | | | |
| 14. Terminated User Listing | | X | |
| 15. Set FILE_ACCESS and FILE_ACCESS:FAILURE Audit Qualifiers on The VMS System | X | | |
| 16. Set the CAPTIVE Flag for the VMS BACKUP ID | X | | |
| <i>Operations</i> | | | |
| 17. Backup Should Be Monitored More Closely | | X | |

CURRENT YEAR COMMENTS

(1) Financial Reporting

Observation

Effective July 1, 2001, the District implemented new financial reporting changes established by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements—and Management’s Discussion and Analysis—for Public Colleges and Universities*. The District currently maintains its internal financial reporting on the modified accrual basis of accounting and converts these records to the accrual basis of accounting in accordance with the provisions of GASB Statement Nos. 34 and 35 for year-end external reporting purposes. The District’s SAP financial system is not currently configured to automatically convert the District’s records from the modified basis of accounting to the accrual basis of accounting. As such, the year-end conversion of the District’s accounting records to comply with the provisions of GASB Statement Nos. 34 and 35 requires an very labor intensive effort to manually perform this conversion process. Due to limited resources at the District’s disposal, an extended period of time is required to complete the aforementioned conversion process.

Recommendation

We recommend that the District examine its current GAAP conversion process and the adequacy of accounting resources for preparing GAAP financial statements to ensure the necessary steps are taken to enable the District to timely produce financial records in accordance with the provisions of GASB Statement Nos. 34 and 35. In addition, we recommend the District continue to analyze their current systems capabilities to automate the year-end GAAP conversion process. Improvement of the District’s financial reporting processes, resources, and capabilities will help to ensure both accurate and timely reporting.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Report to Management

Year ended June 30, 2003

District Response

The District concurs with this finding.

(2) **New Accounting Pronouncement – GASB Statement No. 39**

Observation

Determining Whether Certain Organizations Are Component Units an Amendment of GASB Statement No. 14. As noted in GASB Statement No. 39, an objective of Statement No. 14, *The Financial Reporting Entity*, is that all entities associated with a primary government (i.e., the District) are potential component units and should be evaluated for inclusion in the financial reporting entity. GASB Statement No. 39 amends GASB Statement No. 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Generally, it requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of a governmental unit. Organizations that are legally separate, tax-exempt entities and that meet all of the following criteria should be discretely presented as the District's component units. These criteria are:

- (1) The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the District, its component units, or its constituents.
- (2) The District, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- (3) The economic resources received or held by an *individual organization* that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the District.

This statement continues the requirement in Statement No. 14 to apply professional judgment in determining whether the relationship between a primary government and other organizations for which the primary government is not financially accountable and that do not meet these criteria is such that exclusion of the organization would render the financial statements of the reporting entity misleading or incomplete. Those component units should be reported based on the existing blending and discrete presentation display requirements of Statement No. 14. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2003.

Recommendation

We recommend that the District analyze each legally separate tax-exempt entity it is affiliated with to determine if any of the entities meet all of the criteria noted above. This analysis should include the Foundations at each campus. For those entities meeting all of the criteria noted above and in GASB Statement No. 39, each organization will need to be audited and presented as a discretely presented component unit in the District's June 30, 2004 audited financial statements.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Report to Management

Year ended June 30, 2003

District Response

The District concurs with the finding and currently has Administrative Regulations for Auxiliary Organizations established by the Board of Trustees in accordance with Education Code Section 72672 © and California Administrative Code, Title 5, Sections 59255 and 59257. These regulations require the above-mentioned reviews in addition to the requirement to have an independent audit done annually. One copy of this audit is sent to the State Chancellor's office and one copy is kept on file in the Controller's office.

(3) Lack of Formal IT Strategic Plan

Observation

During our review, we noted that the District has not developed a formal IT strategic plan to support the District's overall business strategy.

Without a formal IT strategic plan that supports the District's future business strategy, the District faces the risk of poor IT project planning, unplanned resource shortages, and a misalignment between IT and business operations.

Recommendation

We recommend that management develop a short and long term IT strategic plan that is aligned with the District's overall business strategy. The IT strategic plan should address business systems that will be needed in the future to assist the District in meeting its overall business goals. Specifically, an IT strategic plan should consider, at a minimum, the following topics:

- Technological Infrastructure Planning – The IT strategic plan should encompass aspects such as systems architecture, technological direction, and migration strategies.
- Future Trends and Regulations – The IT strategic plan should consider future trends and regulatory conditions that may effect an organization's operations.
- Technological Infrastructure Contingency – The IT strategic plan should consider aspects of business contingency (i.e., redundancy, resilience, adequacy and evolutionary capability of the infrastructure).
- Hardware and Software Acquisition Plans – The IT strategic plan should consider hardware and software acquisition plans that reflect the organization's business needs.
- Technology Standards – The IT strategic plan should define technology norms in order to foster standardization.

District's Response

The District concurs with the findings noted above. The Presidents Cabinet has recognized the need for such a plan. At its December meeting, the Cabinet authorized moving forward with such a plan and asked the President of Los Angeles Mission College to chair the plan's steering committee. The CIO is preparing a project plan and has entered into discussions with a consultant to staff the project. The IT Strategic Plan will be completed by the end of this calendar year.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Report to Management

Year ended June 30, 2003

(4) SAP Application Security

Observation

During our high-level review of SAP security, we noted the following weaknesses within the District's application security control environment:

- 14 users were inappropriately granted access to SAP's 'SAP_ALL' profile (e.g. Consultants, SAP User Support). We noted that users assigned to the 'SAP_ALL' profile could execute all SAP transactions, including Basis (security) transactions, within the SAP system.
- 6 users were inappropriately granted access to enter a single journal entry (F-02) within the SAP system (e.g. Consultants, District Office – Vice President).
- 9 users were inappropriately granted access to enter a multiple journal entries (FB50) within the SAP system (e.g. Consultants, Mission – Academic Affairs).

Lack of proper security can potentially expose the District to an increased risk of unauthorized access to transactions and data in SAP in the absence of effective controls over assigning access to users.

Recommendation

We recommend that management create a role-based SAP access matrix, which should list, at a minimum, the transactions that should not be grouped together and profiles that should not be assigned together that would result in a segregation of duties conflict. This matrix should be reviewed during the maintenance/creation of profiles and during the assignment of user access.

A detailed review should be performed over the validity of all users and their access to SAP. This review should be conducted to help ensure that only appropriate users have access to SAP and their access is in line with their job responsibilities. In addition, users' access should be reviewed against the SAP access matrix to help ensure that user access is in compliance with the District's segregation of duty policies. Compensating controls will be required in situations where users may have segregation of duty conflicts, but are required to have the access to perform their jobs. Based on the results of the review, management should undertake appropriate steps to remove unauthorized users and make necessary adjustments to user access to SAP.

District Response

The District concurs with the findings noted above. Infotech moved immediately to correct the weaknesses upon verbal report from the auditors. The SAP_ALL profile accesses were removed for all users except system administrators. The other two findings will be corrected by February 12, 2004 after review with the SAP Financials support team.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Report to Management

Year ended June 30, 2003

(5) SAP Password Controls

Observation

Although management has been conscious of security around the network and application, e noted that current SAP password configurations do not provide strong authentication control. Presently, passwords are set to require a minimum length of 3 characters and user accounts are set to lock after twelve 12 failed login attempts.

Without implementing strong authentication controls, the District's financial system and sensitive data may be expose to unauthorized users.

Recommendation

We recommend that management configure the SAP system to require a minimum password length of 6 characters. In addition, passwords should be allowed for only 3 login attempts. After 3 failed login attempts, the account should be locked until the administrator unlocks it.

District Response

The District concurs with the findings noted above. Existing District authentication policy is consistent with the auditor's recommendation. SAP password controls were originally implemented with the 6-character, 3-login-attempts policy, but changed at some point. Infotech is investigating how the implementation changed. Infotech will also establish a quarterly internal review of its security implementation to insure against this in the future. The current control weakness will be corrected by February 12, 2004.

Prior Year Comments

(6) Capital Assets – Building Improvements

Observation

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

Recommendation

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

District Response

The District concurs with this finding and will implement the recommendation noted above.

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(7) Recording of Capital Leases – Partially Implemented

Observation

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

Recommendation

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

District Response

As recommended by the auditor in 2001, the District's Contracts section follows Financial Accounting Standards Board (FASB) Statement No. 13 in classifying leases as capital or operating at the time the leases are executed and logged. This information is given to the Controller's Office for financial reporting purposes.

As for creating an asset category for "assets held under capital leases," the District has been working to do this as part of the implementation of the SAP financial system, which includes a function for identifying such assets.

(8) Accurately Record Lease Information in Logbook – Partially Implemented

Observation

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

Recommendation

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

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District's Response

A Contracts Analyst now accurately records lease information in the logbook. The Manager of Contracts and Purchasing periodically reviews the logbook and the Director of Business Services meets with the Manager and Analyst after the annual audit to review any issues surrounding the recording of leases.

Regarding the monitoring of leases after they are executed, under the District's system of decentralized procurement this function is the responsibility of the locations requesting the leases. Therefore, for example, a college that initiates a lease (whether operating or capital) for a photocopier is thereafter responsible for keeping track of the lease term and payments and taking the appropriate actions at lease-end.

