

LONG BEACH COMMUNITY COLLEGE DISTRICT

**PROPOSITION 39, GENERAL OBLIGATION BONDS
(MEASURE E, MARCH 2002)
FINANCIAL AUDIT**

June 30, 2008



**LONG BEACH
CITY COLLEGE**

LONG BEACH COMMUNITY COLLEGE DISTRICT
PROPOSITION 39, GENERAL OBLIGATION BONDS
(MEASURE E, MARCH 2002)
FINANCIAL AUDIT

June 30, 2008

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Balance Sheet –Bond Construction Fund.....	3
Statement of Revenues, Expenditures and Change in Fund Balance – Bond Construction Fund.....	4
Statement of Revenues, Expenditures and Change in Fund Balance – Budget and Actual –Bond Construction Fund.....	5
Notes to the Financial Statements	6-9
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.	10-11
Schedule of Findings and Questioned Costs.....	12
Status of Prior Year Findings and Questioned Costs.....	13



INDEPENDENT AUDITORS' REPORT

The Board of Trustees
The Citizens' Oversight Committee
Long Beach Community College District
4901 E. Carson Street
Long Beach, California 90808

We have audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the Long Beach Community College District, as of and for the year ended June 30, 2008, and have issued our report thereon dated November 11, 2008. We have also audited the accompanying Balance Sheet, Statement of Revenues, Expenditures and Change in Fund Balance and Statement of Revenues, Expenditures and Change in Fund Balance – Budget and Actual for the Bond Construction Fund of the Long Beach Community College District as of and for the year ended June 30, 2008. These statements are the responsibility of the District's management. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit of the Bond Construction Fund 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 for the Bond Construction Fund are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Bond Construction Fund 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 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 financial position and results of operations for the Bond Construction Fund of the Long Beach Community College District as of June 30, 2008, in conformity with accounting principles generally accepted in the United States of America.

The Board of Trustees
The Citizens' Oversight Committee
Long Beach Community College District

In accordance with *Government Auditing Standards*, we have also issued a report dated November 11, 2008 on our consideration of the Long Beach Community College District's internal control over financial reporting for the Bond Construction Fund and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance for the Bond Construction Fund. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.


VICENTI, LLOYD & STUTZMAN LLP

November 11, 2008

LONG BEACH COMMUNITY COLLEGE DISTRICT

PROPOSITION 39, GENERAL OBLIGATION BONDS

(MEASURE E, MARCH 2002)

BALANCE SHEET

BOND CONSTRUCTION FUND

June 30, 2008

ASSETS

Cash in county treasury	\$	85,773,054
Accounts receivable		889,869
Prepaid expenses		<u>66,528</u>
TOTAL ASSETS	\$	<u>86,729,451</u>

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	\$	<u>9,171,523</u>
TOTAL LIABILITIES		<u>9,171,523</u>

Fund Balance

Reserved		66,528
Designated		<u>77,491,400</u>
TOTAL FUND BALANCE		<u>77,557,928</u>

TOTAL LIABILITIES AND FUND BALANCE	\$	<u>86,729,451</u>
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See the accompanying notes to the financial statements.

LONG BEACH COMMUNITY COLLEGE DISTRICT

PROPOSITION 39, GENERAL OBLIGATION BONDS

(MEASURE E, MARCH 2002)

STATEMENT OF REVENUES, EXPENDITURES

AND CHANGE IN FUND BALANCE

BOND CONSTRUCTION FUND

For the Fiscal Year Ended June 30, 2008

REVENUES

Revenues from local sources	
Interest income	\$ 3,511,276
TOTAL REVENUES	<u>3,511,276</u>

EXPENDITURES

Classified salaries	8,692
Employee benefits	3,302
Supplies and materials	35,227
Other expenses and services	8,759,457
Capital outlay	<u>26,828,016</u>
TOTAL EXPENDITURES	<u>35,634,694</u>

Excess of expenditures over revenues (32,123,418)

OTHER FINANCING SOURCES (USES)

Proceeds from sale of bonds	70,999,987
Premium from sale of bonds	769,570
Interfund transfer out	<u>(1,209,319)</u>
TOTAL OTHER FINANCING SOURCES	<u>70,560,238</u>

Net change in fund balance 38,436,820

Fund balance at beginning of year 39,121,108

Fund balance at end of year \$ 77,557,928

See the accompanying notes to the financial statements.

LONG BEACH COMMUNITY COLLEGE DISTRICT

**PROPOSITION 39, GENERAL OBLIGATION BONDS
(MEASURE E, MARCH 2002)**

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
BOND CONSTRUCTION FUND**

For the Fiscal Year Ended June 30, 2008

	Adopted Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Revenues from local sources			
Interest income	\$ 3,500,000	\$ 3,511,276	\$ 11,276
TOTAL REVENUES	<u>3,500,000</u>	<u>3,511,276</u>	<u>11,276</u>
EXPENDITURES			
Classified salaries	159,702	8,692	151,010
Employee benefits	65,478	3,302	62,176
Supplies and materials	144,333	35,227	109,106
Other expenses and services	11,459,961	8,759,457	2,700,504
Capital outlay	61,862,991	26,828,016	35,034,975
TOTAL EXPENDITURES	<u>73,692,465</u>	<u>35,634,694</u>	<u>38,057,771</u>
Excess of expenditures over revenues	<u>(70,192,465)</u>	<u>(32,123,418)</u>	<u>38,069,047</u>
OTHER FINANCING SOURCES			
Proceeds from sale of bonds	71,000,000	70,999,987	(13)
Premium from sale of bonds	769,570	769,570	-
Interfund transfer out	(1,209,319)	(1,209,319)	-
TOTAL OTHER FINANCING SOURCES	<u>70,560,251</u>	<u>70,560,238</u>	<u>(13)</u>
Excess of revenues and other sources over expenditures	<u>\$ 367,786</u>	<u>38,436,820</u>	<u>\$ 38,069,034</u>
Fund balance at beginning of year		<u>39,121,108</u>	
Fund balance at end of year		<u>\$ 77,557,928</u>	

See the accompanying notes to the financial statements.

LONG BEACH COMMUNITY COLLEGE DISTRICT
PROPOSITION 39, GENERAL OBLIGATION BONDS
(MEASURE E, MARCH 2002)
BOND CONSTRUCTION FUND

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

ACCOUNTING POLICIES

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and Audits of State and Local Governmental Units issued by the American Institute of Certified Public Accountants.

FUND STRUCTURE

The Statement of Revenues, Expenditures and Change in Fund Balance is a statement of financial activities of the Bond Construction Fund related to the current reporting period. Expenditures frequently include amounts for buildings, equipment, retirement of indebtedness, etc. Consequently, these statements do not purport to present the result of operations or the net income or loss for the period as would a statement of income for a profit-type organization.

BASIS OF ACCOUNTING

The Bond Construction Fund of the Long Beach Community College District is maintained on the modified accrual basis of accounting. As such, revenues are recognized when they become susceptible to accrual, which is to say, when they become both measurable and available to finance expenditures of the current period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered).

Cash in the County Treasury is recorded at cost, which approximates fair value, in accordance with the requirements of GASB Statement No. 31.

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

LONG BEACH COMMUNITY COLLEGE DISTRICT
PROPOSITION 39, GENERAL OBLIGATION BONDS
(MEASURE E, MARCH 2002)
BOND CONSTRUCTION FUND

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

BUDGET

The Statement of Revenues, Expenditures and Change in Fund Balance – Budget and Actual includes a column entitled “Budget”. The amounts in this column represent the budget adopted by the Board.

CAPITAL ASSETS AND LONG-TERM DEBT

The accounting and reporting treatment applied to the capital assets and long-term liabilities associated with the Bond Construction Fund are determined by its measurement focus. The Bond Construction Fund is accounted for on a spending or “financial flow” measurement focus. This means that only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered a measure of “available spendable resources”. Thus, the capital assets and long-term liabilities associated with the Bond Construction Fund are accounted for in the basic financial statements of the Long Beach Community College District.

NOTE 2 – DEPOSITS:

In accordance with the Budget and Accounting Manual, the District maintains its cash related to the Bond Construction Fund in the Los Angeles County Treasury as part of the common investment pool. These pooled funds are carried at cost which approximates fair value. The fair market value of the District’s Bond Construction Fund deposits in this pool as of June 30, 2008, as provided by the pool sponsor, was \$85,735,642. Interest earned is deposited quarterly into the participating fund. Any investment losses are proportionately shared by all funds in the pool.

NOTE 3 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS:

There were no excess of expenditures over appropriation in the Bond Construction Fund.

LONG BEACH COMMUNITY COLLEGE DISTRICT
PROPOSITION 39, GENERAL OBLIGATION BONDS
(MEASURE E, MARCH 2002)
BOND CONSTRUCTION FUND

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 4 – BONDED DEBT:

On March 5, 2002, \$176 million in general obligation bonds were authorized by an election held within the Long Beach Community College District under Proposition 39/Measure E. Proceeds of the bonds will generally be used to finance the construction, acquisition, furnishing and equipping of District facilities.

The following summarizes the debt service requirements on the District for such bonds which mature annually through fiscal year 2032:

Date of Issue		Interest Rate %	Original Maturity Dates (1)	Amount of Original Issue	Outstanding July 1, 2007	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2008
04/30/03	A	2.5-5.0%	5/1/2004 to 8/1/2027	\$ 40,000,000	\$ 6,705,000	\$	\$ 1,010,000	\$ 5,695,000
11/29/05	B	3.75-5.0%	5/1/2006 to 5/1/2030	65,000,000	61,085,000		670,000	60,415,000
11/29/05	C (2)	3.75-5.0%	5/1/2006 to 5/1/2017	28,224,898	27,774,898		2,750,000	25,024,898
10/24/07	D (3)	3.63-5.0%	5/1/2013 to 5/1/2032	70,999,987		70,999,987		70,999,987
				<u>\$ 204,224,885</u>	<u>\$ 95,564,898</u>	<u>\$ 70,999,987</u>	<u>\$ 4,430,000</u>	<u>\$ 162,134,885</u>

- (1) Revised maturity date on non-refunded portion:
Series A – 5/1/2006 to 5/1/2013
- (2) The bonds were issued to refund certain outstanding general obligation bonds (Series A) of the District and were issued as Current Interest Bonds in the aggregate principal amount of \$21,485,000 and Capital Appreciation Bonds of \$6,739,898. \$5,519,550 in proceeds were deposited in the Bond Construction Fund. The balance of proceeds associated with the refunding were deposited in an escrow fund for future repayment. At June 30, 2008 the outstanding balance of the defeased debt to be paid by the escrow agent totaled \$27,175,000. These bonds are considered fully defeased and are not recorded on the financial statements. The difference in cash flow requirements related to this refunding amounted to a savings of approximately \$4,546,350. These savings result in a re-calculation of the collections and payments towards bond payoffs and are included in the consolidated schedule noted on the subsequent page.

The capital appreciation bonds were issued with maturity dates of May 1, 2014 through May 1, 2017. Prior to the applicable maturity date, each bond will accrete interest on the principal component. Recognition of accreted interest is accounted for as a component of long-term debt in the District's basic financial statements.

- (3) \$27,449,987 of the general obligation bonds were issued as Capital Appreciation Bonds. The capital appreciation bonds were issued with maturity dates of May 1, 2013 through May 1, 2025. Prior to the applicable maturity date, each bond will accrete interest on the principal component. Recognition of accreted interest is accounted for as a component of long-term debt in the District's basic financial statements.

LONG BEACH COMMUNITY COLLEGE DISTRICT
PROPOSITION 39, GENERAL OBLIGATION BONDS
(MEASURE E, MARCH 2002)
BOND CONSTRUCTION FUND

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 4 – BONDED DEBT: (continued)

The annual requirements to amortize the bonds payable, outstanding as of June 30, 2008, are as follows:

Year Ended June 30,	Principal	Accreted Interest	Interest	Total
2009	\$ 4,420,000	\$	\$ 6,023,658	\$ 10,443,658
2010	5,080,000		5,855,282	10,935,282
2011	5,750,000		5,662,045	11,412,045
2012	6,380,000		5,434,170	11,814,170
2013	7,158,580	56,420	5,188,750	12,403,750
2014-2018	24,189,050	16,345,950	22,055,019	62,590,019
2019-2023	29,183,200	11,726,800	21,035,500	61,945,500
2024-2028	42,319,055	6,160,945	15,984,250	64,464,250
2029-2032	37,655,000		4,255,500	41,910,500
Total Debt Service	<u>\$ 162,134,885</u>	<u>\$ 34,290,115</u>	<u>\$ 91,494,174</u>	<u>\$ 287,919,174</u>

The repayment of the debt related to the general obligations bonds is accounted for in the District's Bond Interest and Redemption Fund which is part of the Long Beach Community College District's basic financial statements. The recognition of premiums on bonds is recorded as long-term liabilities and the recognition of issuance costs is recognized as capitalized fees in the basic financial statements of the District.

NOTE 5 – PURCHASE COMMITMENTS:

As of June 30, 2008, the District was committed under various capital expenditure purchase agreements for bond projects totaling approximately \$24 Million.

NOTE 6 –SUBSEQUENT EVENT:

General Obligation Bonds

On May 27, 2008 the Board authorized the District to issue Series A (Measure E) general obligation bonds in the aggregate amount of \$48,373,981. The bonds are authorized by an election conducted within the District February 2008 under Proposition 39 and were issued on July 8, 2008. The bonds are issued in order to finance the construction, acquisition, furnishing and equipping of District facilities.



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

The Board of Trustees
The Citizens' Oversight Committee
Long Beach Community College District
4901 E. Carson Street
Long Beach, California 90808

We have audited the accompanying Balance Sheet, Statement of Revenues, Expenditures and Change in Fund Balance and Statement of Revenues, Expenditures and Change in Fund Balance – Budget and Actual for the Bond Construction Fund of the Long Beach Community College District as of and for the year ended June 30, 2008 and have issued our report thereon dated November 11, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Long Beach Community College District's internal control over the Bond Construction Fund financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Bond Construction Fund financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over Bond Construction Fund financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over Bond Construction Fund financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's Bond Construction Fund financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

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

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the Bond Construction Fund financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over Bond Construction Fund financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Long Beach Community College District's Bond Construction Fund financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the audit committee, the Board, and the Citizens' Oversight Committee and is not intended to be and should not be used by anyone other than these specified parties.


VICENTI, LLOYD & STUTZMAN LLP

November 11, 2008

LONG BEACH COMMUNITY COLLEGE DISTRICT
PROPOSITION 39, GENERAL OBLIGATION BONDS
(MEASURE E, MARCH 2002)
BOND CONSTRUCTION FUND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2008

There were no findings and questioned costs related to Bond Construction Fund financial statements for the year ended June 30, 2008.

LONG BEACH COMMUNITY COLLEGE DISTRICT
PROPOSITION 39, GENERAL OBLIGATION BONDS
(MEASURE E, MARCH 2002)
BOND CONSTRUCTION FUND

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2008

FINDING 07-1 – INTERNAL CONTROLS – CLOSING PROCESS ACCRUALS

Finding: Our testing disclosed two errors in current year retention accruals due to a duplication and a keying error resulting in an overstatement of accounts payable of \$777,677. In addition, it was noted that two insurance payments with coverage extending into fiscal year 2007-08 were fully expensed in 2006-07, resulting in an understatement of prepaid expense of \$441,843. Statement on Auditing Standards No. 112 (SAS 112), effective during the 2006-07 fiscal year, suggests that audit adjustments are a strong indicator of a material weakness in internal controls over financial reporting.

Recommendation: The District should establish a formal closing procedure that allows for the review of accruals for accuracy and reasonableness. In addition, staff should be trained on the appropriate accounting for expenditures that have a period extending beyond the current fiscal year.

Current Status: Implemented