# COMPTON
# COMMUNITY COLLEGE DISTRICT

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ANNUAL FINANCIAL REPORT

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## JUNE 30, 2012

**COMPTON COMMUNITY COLLEGE DISTRICT**

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**JUNE 30, 2012**


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# *FINANCIAL SECTION*

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

## INDEPENDENT AUDITORS' REPORT

Special Trustee and Board of Trustees
Compton Community College District
Compton, California

We have audited the accompanying basic financial statements of Compton Community College District (the District) as of and for the year ended June 30, 2012, as listed in the Table of Contents. These basic 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.

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 basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to previously present fairly, in all material respects, the financial position of Compton Community College District as of June 30, 2012, and the respective changes in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16 to the financial statements, the State of California continues to suffer the effects of a recessionary economy, which directly impacts the funding formula of Compton Community College District.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important in assessing the results of our audit.



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Accounting principles generally accepted in the United States of America require that the supplementary information, such as the Management's Discussion and Analysis on pages 4 through 12 and the Schedule of Other Postemployment Benefits (OPEB) Funding Progress on page 46, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (Circular A-133) and other supplementary information listed in the Table of Contents, are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 7, 2012

Serving the Communities of
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***Introduction***

The purpose of this management's discussion and analysis (MD&A) is to provide readers with information about the activities, programs, and financial condition of the Compton Community College District (the District) as of June 30, 2012. The discussion has been prepared by management and should be read in conjunction with the financial statements and notes which follow this section. Responsibility for the completeness and accuracy of this information rests with District management.

The District was established in 1927 and serves the communities of Compton, Willowbrook, Enterprise, Carson, Lynwood, and Paramount. Students in our college may complete the freshman and sophomore years of a baccalaureate degree and transfer to upper division study at a university or complete a certificated vocational program and move directly to the workforce.

On June 30, 2006, the District was notified that its accreditation by the Accrediting Commission for Community and Junior Colleges of the Western Association of Schools and Colleges was being withdrawn. In anticipation of this action, the legislature passed and Governor Schwarzenegger signed legislation known as Assembly Bill 318 (AB 318). AB 318 put in place several operational parameters unique to the Compton Community College District. The first provides for access to $30 million in the form of a loan that is to be repaid over 20 years from the date the District withdraws the funds. To date, the District has withdrawn approximately $17.8 million, and the current annual repayment obligation is approximately $1.3 million. Lastly, the District partnered with El Camino Community College District to ensure that Compton students could continue to have access to accredited educational services. El Camino Community College District provides accredited instructional and student services to students on the Compton campus through a newly established El Camino College Compton Community Educational Center.

***Overview of the Financial Statements***

The Compton Community College District's financial statements are presented in accordance with Governmental Accounting Standards Board Statements (GASB) Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public College and Universities*. These statements allow for the presentation of financial activity and results of operations which focuses on the District as a whole. The entity-wide financial statements present the overall results of operations whereby all of the District's activities are consolidated into one total versus the traditional presentation by fund type. Under the BTA reporting model, this reports consists of three basic financial statements that provide information on the District's governmental activities as a whole: the Statement of Net Assets; the Statement of Revenues, Expenditures, and Changes in Net Assets; and the Statement of Cash Flows.

The California Community Colleges Chancellor's Office has recommended that all State community colleges follow the Business-Type Activity (BTA) model for financial statement reporting purposes.

## ***Financial Highlights***

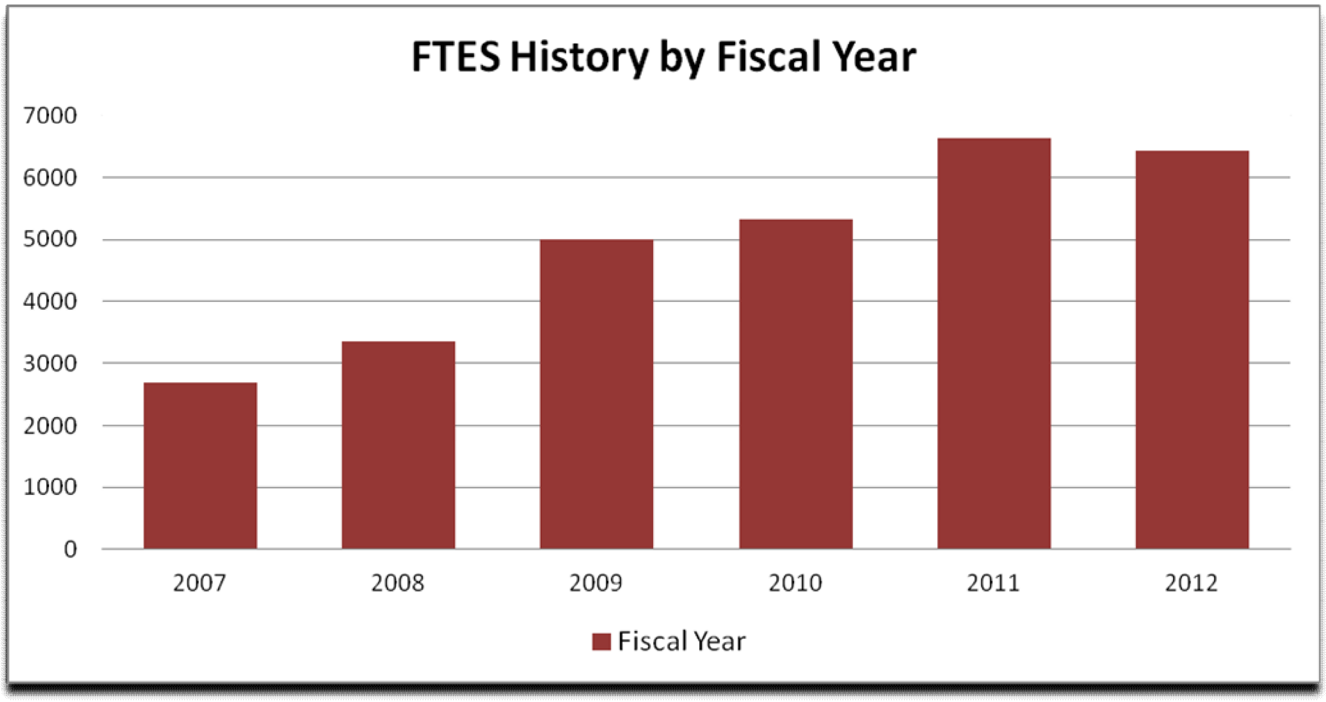
Several construction and modernization projects at the District are in progress. The projects, listed below, are funded both through State construction revenues and through the District's voter approved General Obligation Bond, Measure CC.

| | |
|---|---|
| Utility Infrastructure Phase 1 | Utility Infrastructure Phase 2 |
| Central Plant/Stadium Lighting | Allied Health Renovation |

Additionally, the emergency MIS project is funded only through the District's voter approved General Obligation Bond, Measure CC.

## ***Full-Time Equivalent Student Growth***

During fiscal year 2011-2012, total Full-Time Equivalent Students (FTES) decreased from 6,626 to 6,375, a decrease of 251 FTES (or 3.8 percent). Credit FTES decreased by 3.0 percent while noncredit FTES decreased by 14.6 percent due to reduced class sections.



***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, and was prepared using the accrual basis of accounting, which is similar to the accounting basis used by most private-sector organizations. The Statement of Net Assets is a point of time financial statement whose purpose is to present to the reader a fiscal snapshot of the District. The Statement of Net Assets presents end-of-year data concerning assets, liabilities, and net assets.

From the data presented, the reader of the Statement of Net Assets is able to determine the assets available to continue operations of the District. The reader is also able to determine how much the District owes vendors and employees. Finally, the Statement of Net Assets provides a picture of the net assets and their availability for expenditure by the District.

The difference between total assets and total liabilities is one indicator of the current financial condition of the District; the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost, less accumulated depreciation.

The net assets are divided into three major categories. The first category, invested in capital assets, provides the equity amount in property, plant, and equipment owned by the District. The second category is expendable restricted net assets; these net assets are available for expenditure by the District, but must be spent for purposes as determined by external entities and/or donors that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets, which are available to the District for any lawful purpose of the District.

A summary of the Statement of Net Assets as of June 30, 2012 and June 30, 2011, is below:

**Table 1**

| | 2012 | 2011 | Increase (Decrease) | Percent Change |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current Assets** | | | | |
| Cash and investments | $ 32,393,301 | $ 20,931,054 | $ 11,462,247 | 54.8% |
| Accounts receivable, net | 13,201,725 | 13,800,188 | (598,463) | -4.3% |
| Other current assets | 94,064 | 52,645 | 41,419 | 100.0% |
| **Total Current Assets** | 45,689,090 | 34,783,887 | 10,905,203 | 31.4% |
| **Noncurrent Assets** | | | | |
| Other assets | 951,899 | 858,750 | 93,149 | 10.8% |
| Capital assets, net of accumulated depreciation | 79,782,146 | 76,057,674 | 3,724,472 | 4.9% |
| **Total Noncurrent Assets** | 80,734,045 | 76,916,424 | 3,817,621 | 5.0% |
| **TOTAL ASSETS** | $ 126,423,135 | $ 111,700,311 | $ 14,722,824 | 13.2% |
| **LIABILITIES** | | | | |
| **Current Liabilities** | | | | |
| Accounts payable and accrued liabilities | $ 4,557,211 | $ 6,263,225 | $ (1,706,014) | -27.2% |
| Deferred revenue | 1,767,502 | 1,676,761 | 90,741 | 5.4% |
| TRAN payable | 1,500,000 | - | 1,500,000 | 100.0% |
| Current portion of long-term obligations | 2,385,978 | 2,140,074 | 245,904 | 11.5% |
| Interest payable | 1,317,479 | 1,295,354 | 22,125 | 1.7% |
| **Total Current Liabilities** | 11,528,170 | 11,375,414 | 152,756 | 1.3% |
| **Noncurrent Liabilities** | | | | |
| Bonds payable | 62,266,122 | 50,332,632 | 11,933,490 | 23.7% |
| Notes payable | 14,693,134 | 15,448,342 | (755,208) | -4.9% |
| Other long-term obligations | 9,262,213 | 6,383,453 | 2,878,760 | 45.1% |
| **Total Noncurrent Liabilities** | 86,221,469 | 72,164,427 | 14,057,042 | 19.5% |
| **TOTAL LIABILITIES** | 97,749,639 | 83,539,841 | 14,209,798 | 17.0% |
| **NET ASSETS** | | | | |
| Invested in capital assets, net of related debt | 38,494,259 | 37,296,333 | 1,197,926 | 3.2% |
| Restricted for: | | | | |
| Capital projects | 2,253,338 | 758,781 | 1,494,557 | 197.0% |
| Other special services | 3,085,176 | 1,625,600 | 1,459,576 | 89.8% |
| Unrestricted | (15,159,277) | (11,520,244) | (3,639,033) | 31.6% |
| **TOTAL NET ASSETS** | 28,673,496 | 28,160,470 | 513,026 | 1.8% |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 126,423,135 | $ 111,700,311 | $ 14,722,824 | 13.3% |

- The Statement of Cash Flows contained within these financial statements provides greater detail regarding the sources and uses of cash and the net increase in cash during fiscal year 2011-2012. Both cash and assets had significant increases between fiscal years 2012 and 2011 due to the sale of $15,001,122 in general obligation bonds.

- The majority of the accounts receivable balance is from Federal and State sources for apportionment and grant and entitlement programs. Included in accounts receivable is approximately $9.2 million for the January through June 2012 apportionment payment deferrals, and approximately $435 thousand for reimbursements from State agencies related to construction grant awards. In addition, there is a $1.1 million net student fee receivable.

- Capital assets had a net increase of $3.7 million. The District had net additions of $4.8 million related to construction in progress. Depreciation expense of $1.3 million was recognized during 2011-2012. The capital asset section of this discussion and analysis provides greater detail.

- Accounts payable are amounts due as of the fiscal year end for goods and services received as of June 30, 2012. Total accounts payable are $4.5 million; $393 thousand of the balance was accrued in the Capital Projects Fund and the Bond Fund related to construction projects; and $1.7 million is for amounts due to or on behalf of employees for wages and benefits.

- The District's noncurrent liabilities primarily consist of bonds payable, related to the issuance of Series A, B, and C of the 2002 Measure CC General Obligation Bonds, and notes payable related to the drawdown from the line of credit through the State. The face value of these bonds at the time of initial sale totaled $71 million, and $63.6 million represents the remaining long-term obligation to satisfy these obligations. The District has made withdrawals from the line of credit totaling $17.9 million, and $15.4 million represents the outstanding balance.

***Statement of Revenues, Expenses, and Changes in Net Assets***

The Statement of Revenues, Expenses, and Changes in Net Assets present the financial results of the District's operations, as well as its non-operating activities. The distinction between these two activities involves the concepts of exchange and non-exchange. Operating activities are those in which a direct payment or exchange is made for the receipt of specified goods or services. For example, tuition fees paid by the student are considered an exchange for instructional services. The receipt of State apportionments and property taxes, however, do not include this exchange relationship between the payment and receipt of specified goods or services. These revenues and related expense are classified as non-operating activities. It is because of the methodology used to categorize between operating and non-operating combined with the fact that the primary source of funding that supports the District's instructional activities comes from State apportionment and local property taxes, that the results of the District's operations will result in a net operating loss.

The Statement of Revenues, Expenses, and Changes in Net Assets for the years ended June 30, 2012 and June 30, 2011, is summarized below:

**Table 2**

| | 2012 | 2011 | Increase (Decrease) | Percent Change |
|---|---|---|---|---|
| **OPERATING REVENUES** | | | | |
| Tuition and fees (net) | $ 1,228,903 | $ 1,354,288 | $ (125,385) | -9.3% |
| Other operating revenues | 49,324 | 750,109 | (700,785) | -93.4% |
| **TOTAL OPERATING REVENUES** | 1,278,227 | 2,104,397 | (826,170) | -39.3% |
| **TOTAL OPERATING EXPENSES** | 38,677,439 | 42,501,030 | (3,823,591) | -9.0% |
| **OPERATING LOSS** | (37,399,212) | (40,396,633) | 2,997,421 | -7.4% |
| **NONOPERATING REVENUES (EXPENSES)** | | | | |
| State apportionments, noncapital | 25,297,605 | 28,559,964 | (3,262,359) | -11.4% |
| Local property taxes | 6,446,568 | 6,503,823 | (57,255) | -0.9% |
| State revenue - other | 1,574,613 | 1,279,255 | 295,358 | 23.1% |
| Grants and contracts, noncapital: | | | | |
| Federal | 1,167,024 | 1,587,162 | (420,138) | -26.5% |
| State | 3,197,062 | 3,302,102 | (105,040) | -3.2% |
| Interest and investment income | 323,508 | 386,923 | (63,415) | -16.4% |
| Other nonoperating revenue | 2,446,391 | 3,199,786 | (753,395) | -23.5% |
| Loss on asset disposal | - | (1,377,612) | 1,377,612 | -100.0% |
| Interest expense | (3,385,918) | (3,334,035) | (51,883) | 1.6% |
| **NET NONOPERATING REVENUES** | 37,066,853 | 40,107,368 | (3,040,515) | -7.6% |
| **OTHER REVENUES** | | | | |
| State apportionments, capital | 845,385 | 1,892,538 | (1,047,153) | -55.3% |
| **TOTAL OTHER REVENUES** | 845,385 | 1,892,538 | (1,047,153) | -55.3% |
| **CHANGE IN NET ASSETS** | 513,026 | 1,603,273 | (1,090,247) | -68.0% |
| **NET ASSETS, BEGINNING OF YEAR** | 28,160,470 | 26,557,197 | 1,603,273 | 6.0% |
| **NET ASSETS, END OF YEAR** | $ 28,673,496 | $ 28,160,470 | $ 513,026 | 1.8% |

- State apportionments have decreased 11.4 percent, but net assets increased 1.8 percent. The increase in net assets is related overall decrease in operating expenses.

- The primary components of tuition and fees are the $36 per unit enrollment fee that is charged to all students registering for classes and the additional $211 per unit fee that is charged to all non-resident students.

- Personnel costs accounted for 72 percent of operating expenses in fiscal year 2012, compared to 67 percent in 2011. The balance of operating expenses is for supplies, materials, other operating expenses, financial aid, utilities, and depreciation expense.

- The primary revenue sources of the District's nonoperating revenue are: State apportionment, local property taxes, other State funding, and interest income. With the exception of interest income, all of this revenue is received to support the District's instructional activities. The amount of State general apportionment received by the District is dependent upon the number of FTES generated and reported to the State, less amounts received from enrollment fees and local property taxes. Increases in either of these latter two revenue categories leads to a corresponding decrease in apportionment.

- State capital apportionments consist of amounts received for capital outlay construction projects. The District currently has three projects that are funded by State capital apportionments.

In accordance with requirements set forth by the California Community Colleges Chancellor's Office, the District reports operating expenses by object code. Operating expenses by functional classification are as follows:

**Table 3**

| | Salaries and Employee Benefits | Supplies, Materials, Other Expenses, and Services | Equipment, Maintenance, and Repairs | Financial Aid | Depreciation | Total |
|---|---|---|---|---|---|---|
| Instructional Activities | $ 13,769,668 | $ 183,406 | $ 742,333 | $ - | $ - | $ 14,695,407 |
| Instructional Administrative and Instructional Governance | 1,423,271 | 21,986 | 67,448 | - | - | 1,512,705 |
| Institutional Support Services | 831,509 | 15,919 | 82,741 | - | - | 930,169 |
| Administrative and Support Activities | 514,396 | 20,347 | 20,119 | - | - | 554,862 |
| Student Counseling and Guidance | 683,013 | 4,108 | 11,449 | - | - | 698,570 |
| Other Student Services | 4,839,973 | 149,846 | 588,389 | 297,648 | - | 5,875,856 |
| Operation and Maintenance of Plant | 1,773,444 | 51,548 | 1,370,206 | - | - | 3,195,198 |
| Planning, Policymaking, and Coordination | 456,585 | 14,570 | 2,077,492 | - | - | 2,548,647 |
| Institutional Support Services | 2,664,904 | 34,376 | 2,861,481 | - | - | 5,560,761 |
| Community Services and Economic Development | 49,394 | 250 | 6,040 | - | - | 55,684 |
| Ancillary Services and Auxiliary Operation | 723,938 | 37,740 | 88,506 | - | - | 850,184 |
| Physical Property and Related Acquisitions | - | 17,792 | 879,098 | - | - | 896,890 |
| Depreciation | - | - | - | - | 1,302,506 | 1,302,506 |
| Total | $ 27,730,095 | $ 551,888 | $ 8,795,302 | $ 297,648 | $ 1,302,506 | $ 38,677,439 |

***Statement of Cash Flows***

The Statement of Cash Flows provides information about cash receipts and cash payments during the fiscal year. This Statement also assists users assessing the District's ability to generate positive cash flows, meet obligations as they come due, and the need for external financing. The primary operating expense of the District is the payment of salaries and benefits to faculty, administrators, and classified staff.

The Statement of Cash Flows is divided into five parts. The first part reflects operating cash flows and shows the net cash used by the operating activities of the District. The second part details cash received for nonoperating, noninvesting, and noncapital financing purposes. The third part shows cash flows from capital and related financing activities. This part deals with the cash used for the acquisition and construction of capital and related items. The fourth part provides information from investing activities and the amount of interest received. The last section reconciles the net cash used by operating activities to the operating loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

The Statement of Cash Flows for the fiscal years ended June 30, 2012 and June 30, 2011, is summarized below:

**Table 4**

| | 2012 | 2011 |
|---|---|---|
| Cash Provided by (Used in) | | |
| Operating activities | $ (36,169,210) | $ (36,557,477) |
| Noncapital financing activities | 38,733,580 | 35,068,874 |
| Capital and related financing activities | 8,594,771 | (4,009,656) |
| Investing activities | 303,106 | 372,941 |
| Net Change in Cash and Cash Equivalents | 11,462,247 | (5,125,318) |
| Cash Balance, Beginning of Year | 20,931,054 | 26,056,372 |
| Cash Balance, End of Year | $ 32,393,301 | $ 20,931,054 |

***Capital Assets***

At June 30, 2012, the District has $79.8 million in a broad range of capital assets, including land, buildings, and furniture and equipment. At June 30, 2011, the District's net capital assets were $76.1 million. Major capital improvements projects are ongoing throughout the college. These projects are primarily funded through State Construction Revenues and District General Obligation Bonds. Projects are accounted for with our construction in progress account unit the project is completed at which time the cost of the building and/or improvements will be recorded to the depreciable Building and Improvement category.

***Debt Obligations***

At June 30, 2012, the District has $88.6 in debt obligations of which $63.6 million is in General Obligation Bonds. These bonds are repaid in annual installments, in accordance with obligation requirements, by way of property tax assessments on property within the Compton Community College District's boundaries.

The District issued approximately $15 million of General Obligation Bonds, Series 2012C in April 2012. The proceeds will be used for capital facility projects.

The District has also received $17.9 million in notes payable from the State of which $15.4 million is outstanding. This note is repaid in annual installments, in accordance with obligation requirements.

The District is also obligated to employees of the District for vacation, claims, and retirement payments.

***Economic Factors That May Affect the Future***

The largest component of revenue the District receives is from the State of California. The most important element of the State funding is the total General Apportionment allocation, which accounts for 78.0 percent of the District's 2011-2012 Unrestricted General Fund. Apportionment revenue is directly tied to the generation and reporting of FTES. Over the last three years, the District has experienced an increase in FTES of 20.7 percent. However, the District did experience a decrease in FTES in fiscal year 2011-2012 of 3.0 percent. Looking to fiscal year 2012-2013, the District, based on the State proposed funding, anticipates a drop in FTES in 2013. The District budgeted for a 7.2 percent decrease in FTES so far comparing 2012-2013 compared to 2011-2012, however based on the passing of Proposition 30, the District is not likely to receive a workload of 7.2 percent but it is unknown has much funding will result from Proposition 30.

Fiscal year 2013 brings much uncertainty at the State level even with the passing of Proposition 30, with a continued deficit and expenditure imbalances. The budget development will require careful watch on the Governor's January budget proposal, as well as monitoring during the Spring, up to and including the May revision. A plan to deal with potential and significant reductions will have to be in place in the event reductions appear likely.

***Contacting the District's Financial Management***

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Compton Community College District at 1111 East Artesia Boulevard, Compton, California 90221.

## COMPTON COMMUNITY COLLEGE DISTRICT

## STATEMENT OF NET ASSETS - PRIMARY GOVERNMENT
## JUNE 30, 2012

| | |
|---|---|
| **ASSETS** | |
| **Current Assets** | |
| Cash and cash equivalents | $ 225,000 |
| Investments | 32,168,301 |
| Accounts receivable | 12,069,063 |
| Student loans receivable, net | 1,132,662 |
| **Total Current Assets** | 45,595,026 |
| **Noncurrent Assets** | |
| Deferred cost of issuance | 951,899 |
| Capital Assets: | |
| Nondepreciable capital assets | 40,080,302 |
| Depreciable capital assets, net of depreciation | 39,701,844 |
| Total Capital Assets | 79,782,146 |
| **Total Noncurrent Assets** | 80,734,045 |
| **TOTAL ASSETS** | 126,329,071 |
| **LIABILITIES** | |
| **Current Liabilities** | |
| Accounts payable | 4,463,147 |
| Interest payable | 1,317,479 |
| Deferred revenue | 1,767,502 |
| TRAN payable | 1,500,000 |
| Notes payable | 755,208 |
| Bonds payable | 1,345,000 |
| Other long-term obligations | 285,770 |
| **Total Current Liabilities** | 11,434,106 |
| **Noncurrent Liabilities** | |
| Compensated absences payable | 1,096,918 |
| Notes payable | 14,693,134 |
| Bonds payable | 62,266,122 |
| Other long-term obligations | 8,165,295 |
| **Total Noncurrent Liabilities** | 86,221,469 |
| **TOTAL LIABILITIES** | 97,655,575 |
| **NET ASSETS** | |
| Invested in capital assets, net of related debt | 38,494,259 |
| Restricted for: | |
| Debt service | 2,253,338 |
| Capital projects | 1,452,586 |
| Other activities | 1,632,590 |
| Unrestricted | (15,159,277) |
| **TOTAL NET ASSETS** | $ 28,673,496 |

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

## COMPTON COMMUNITY COLLEGE DISTRICT

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - PRIMARY GOVERNMENT FOR THE YEAR ENDED JUNE 30, 2012

| | |
|---|---|
| **OPERATING REVENUES** | |
| Student Tuition and Fees | $ 4,064,000 |
| Less: Scholarship discount and allowance | (2,835,097) |
| Net tuition and fees | 1,228,903 |
| Other Operating Revenues | 49,324 |
| **TOTAL OPERATING REVENUES** | 1,278,227 |
| **OPERATING EXPENSES** | |
| Salaries | 19,973,785 |
| Employee benefits | 7,756,310 |
| Supplies, materials, and other operating expenses and services | 9,347,190 |
| Student financial aid | 297,648 |
| Depreciation | 1,302,506 |
| **TOTAL OPERATING EXPENSES** | 38,677,439 |
| **OPERATING LOSS** | (37,399,212) |
| **NONOPERATING REVENUES (EXPENSES)** | |
| State apportionments, noncapital | 25,297,605 |
| Local property taxes, levied for general purposes | 3,500,259 |
| Taxes levied for other specific purposes | 2,946,309 |
| Federal grants | 1,167,024 |
| State grants | 3,197,062 |
| State taxes and other revenues | 1,574,613 |
| Investment income | 309,784 |
| Interest expense on capital related debt | (3,385,918) |
| Investment income on capital asset-related debt, net | 13,724 |
| Other nonoperating revenue | 2,446,391 |
| **TOTAL NONOPERATING REVENUES (EXPENSES)** | 37,066,853 |
| **LOSS BEFORE OTHER REVENUES** | (332,359) |
| **OTHER REVENUES** | |
| State revenues, capital | 845,385 |
| **CHANGE IN NET ASSETS** | 513,026 |
| **NET ASSETS, BEGINNING OF YEAR** | 26,983,355 |
| **RESTATEMENTS** | 1,177,115 |
| **NET ASSETS, END OF YEAR** | $ 28,673,496 |

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

## COMPTON COMMUNITY COLLEGE DISTRICT

## STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT
## FOR THE YEAR ENDED JUNE 30, 2012

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Tuition and fees | $ 1,257,586 |
| Payments to vendors for supplies and services | (10,906,786) |
| Payments to or on behalf of employees | (26,271,686) |
| Payments to students for scholarships and grants | (297,648) |
| Other operating receipts | 49,324 |
| **Net Cash Flows From Operating Activities** | (36,169,210) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | |
| State apportionments | 22,884,777 |
| Grant and contracts | 4,644,855 |
| Property taxes - nondebt related | 3,500,259 |
| State taxes and other apportionments | 2,215,079 |
| Other nonoperating | 5,488,610 |
| **Net Cash Flows From Noncapital Financing Activities** | 38,733,580 |
| **CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES** | |
| Purchase of capital assets | (5,048,654) |
| Proceeds from sale of bonds | 15,291,029 |
| State revenue, capital projects | 845,385 |
| Property taxes - related to capital debt | 2,946,309 |
| Principal paid on capital debt | (2,089,229) |
| Interest paid on capital debt | (3,363,793) |
| Interest received on capital asset-related debt | 13,724 |
| **Net Cash Flows From Capital Financing Activities** | 8,594,771 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Interest received from investments | 303,106 |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | 11,462,247 |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | 20,931,054 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | $ 32,393,301 |

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

## COMPTON COMMUNITY COLLEGE DISTRICT

## STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT, Continued
## FOR THE YEAR ENDED JUNE 30, 2012

| | |
|---|---|
| **RECONCILIATION OF NET OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Operating Loss | $ (37,399,212) |
| Adjustments to Reconcile Operating Loss to Net Cash Flows From Operating Activities: | |
| Depreciation expense | 1,302,506 |
| Changes in Operating Assets and Liabilities: | |
| Receivables | (80,698) |
| Prepaid expenses | (41,419) |
| Accounts payable and accrued liabilities | (1,216,598) |
| Deferred revenue | 165,065 |
| Compensated absences and retirement incentives | 1,101,146 |
| Total Adjustments | 1,230,002 |
| **Net Cash Flows From Operating Activities** | $ (36,169,210) |
| | |
| **CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:** | |
| Cash in banks | $ 225,000 |
| Cash in county treasury | 32,168,301 |
| **Total Cash and Cash Equivalents** | $ 32,393,301 |
| | |
| **NON CASH TRANSACTIONS** | |
| On behalf payments for benefits | $ 588,348 |
| Board of governors fee waivers | 2,835,097 |
| **Total Non Cash Transactions** | $ 3,423,445 |

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

## COMPTON COMMUNITY COLLEGE DISTRICT

## STATEMENT OF FIDUCIARY NET ASSETS
## JUNE 30, 2012

| | Trust |
|---|---|
| **ASSETS** | |
| Cash and cash equivalents | $ 62,408 |
| Investments | 75,773 |
| Accounts receivable | 57,658 |
| **Total Assets** | 195,839 |
| **LIABILITIES** | |
| Accounts payable | 30,369 |
| Due to student groups | 120,967 |
| **Total Liabilities** | 151,336 |
| **NET ASSETS** | |
| Unreserved | 44,503 |
| **Total Net Assets** | $ 44,503 |

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

## COMPTON COMMUNITY COLLEGE DISTRICT

## STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
## FOR THE YEAR ENDED JUNE 30, 2012

| | Trust |
|---|---|
| **ADDITIONS** | |
| Local revenues | $ 39,100 |
| **Total Additions** | 39,100 |
| **DEDUCTIONS** | |
| Services and operating expenditures | 46,994 |
| **Total Deductions** | 46,994 |
| **Change in Net Assets** | (7,894) |
| **Net Assets - Beginning** | 52,397 |
| **Net Assets - Ending** | $ 44,503 |

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

## *NOTE 1 - ORGANIZATION*

Compton Community College District (the District) is located in the city of Compton, Los Angeles County, California. Compton Community College was established in 1927 as a component of the Compton Union High School District. At that time, State law authorized high school and unified school districts to offer education through a junior college accredited program. In 1950, voters approved a bond issue separating the college from the high school district, establishing a District Governing Special Trustee and Board of Trustees.

Before the loss of its accreditation in August 2006, the college provided post-K-12 educational services to the residents of its service area encompassing 29 square miles. The Chancellor of the Community College System appointed a Special Trustee in the spring of 2004, as his designee to administer the college.

On June 30, 2006, Assembly Bill (AB) 318 was signed into law. AB 318 provided a State loan of $30 million to the Compton Community College District. The legislation also required the Fiscal Crisis and Management Assistance Team (FCMAT) to conduct a comprehensive assessment of the District in five operational areas and to develop a recovery plan for the District to implement. FCMAT is required to file written status reports at regular intervals on the District's progress in implementing the recovery plan.

The District has worked to provide uninterrupted educational services for the students by partnering with another accredited community college, the El Camino Community College. Under this partnership, instructional services are provided on the Compton campus by the El Camino Community College District as the El Camino College Compton Center.

## *NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

### Financial Reporting Entity

The District has adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations, for which the District is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the District. The three components used to determine the presentation are: providing a "direct benefit", the "environment and ability to access/influence reporting", and the "significance" criterion. As defined by accounting principles generally accepted in the United States of America and established by the Governmental Accounting Standards Board, the financial reporting entity consists of the District.

The District has analyzed the financial and accountability relationship with the Foundation for the Compton Community College District (the Foundation) in conjunction with the GASB Statement No. 39 criteria. The Foundation is a separate not for profit organization and the District does provide and receive direct benefits to and from the Foundation. However, it has been determined that all criteria under GASB Statement No. 39 have not been met to require inclusion of the Foundation financial statements in the District's annual report. Information on the Foundation may be requested through the Foundation for the Compton Community College District office.

Based on the criteria listed above, the following potential component unit has been excluded from the District's reporting entity:

> The Foundation for the Compton Community College District is a legally separate, tax exempt, public benefit corporation. The Foundation was not included as a component unit because the economic resources held by the Foundation, in management's opinion, are not significant to the District.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities as defined by GASB Statements No. 34 and No. 35 as amended by GASB Statements No. 37 and No. 38. This presentation provides a comprehensive entity-wide perspective of the District's assets, liabilities, activities, and cash flows and replaces the fund group perspective previously required. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. The significant accounting policies followed by the District in preparing these financial statements are in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB. Additionally, the District's policies comply with the California Community Colleges Chancellor's Office *Budget and Accounting Manual*. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All material intra-agency and intra-fund transactions have been eliminated.

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are classified as operating revenues. These transactions are recorded on the accrual basis when the exchange takes place. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, operating revenues consist primarily of student fees and auxiliary activities through the bookstore and cafeteria.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include State apportionments, property taxes, certain Federal and State grants, entitlements, and donations. Property tax revenue is recognized in the fiscal year received. State apportionment revenue is earned based upon criteria set forth from the Community Colleges Chancellor's Office and includes reporting of full-time equivalent student (FTES) attendance. The corresponding apportionment revenue is recognized in the period the FTES are generated. Revenue from Federal and State grants and entitlements are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements may include time and/or purpose requirements.

Operating expenses are costs incurred to provide instructional services including support costs, auxiliary services, and depreciation of capital assets. All other expenses not meeting this definition are reported as nonoperating. Expenses are recorded on the accrual basis as they are incurred, when goods are received, or services are rendered.

The District reports are based on all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. The District has not elected to apply FASB pronouncements after that date.

The financial statements are presented in accordance with the reporting model as prescribed in GASB Statement No. 34, *Basic 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,* as amended by GASB Statements No. 37 and No. 38. The business-type activities model followed by the District requires the following components of the District's financial statements:

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

**Cash and Cash Equivalents**

The District's cash and cash equivalents are considered to be unrestricted cash on hand, demand deposits, and short-term unrestricted investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include unrestricted cash with county treasury balances for purposes of the Statement of Cash Flows. Restricted cash and cash equivalents represent balances restricted by external sources such as grants and contracts or specifically restricted for the repayment of capital debt.

**Investments**

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments held at June 30, 2012 and 2011, are stated at fair value. Fair value is estimated based on quoted market prices at year-end. Short-term investments have an original maturity date greater than three months, but less than one year at time of purchase. Long-term investments have an original maturity of greater than one year at the time of purchase.

**Accounts Receivable**

Accounts receivable include amounts due from the Federal, State and/or local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Accounts receivable also consist of tuition and fee charges to students. The District provides for an allowance for uncollectable accounts as an estimation of amounts that may not be received. This allowance is established based upon management's analysis. The allowance is $1,076,920 at June 30, 2012.

**Unamortized Issuance Costs**

Amounts paid for fees and underwriting costs associated with General Obligation Bonds previously issued were capitalized and are amortized to interest expense over the life of the bonds. Issuance costs of $1,128,318 were capitalized and are amortized using the straight-line method. Amortization of $176,419 was recognized during fiscal year 2011-2012. At June 30, 2012, the remaining balance is $951,899.

**Capital Assets and Depreciation**

Capital assets are long-lived assets of the District as a whole and include land, construction-in-progress, buildings, leasehold improvements, and equipment. The District maintains an initial unit cost capitalization threshold of $5,000 and an estimated useful life greater than one year. Assets are recorded at historical cost, or estimated historical cost, when purchased or constructed. The District does not possess any infrastructure. Donated capital assets are recorded at estimated fair market value at the date of donation. Improvements to buildings and land that significantly increase the value or extend the useful life of the asset are capitalized; the costs of routine maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are charged as an operating expense in the year in which the expense was incurred. Major outlays for capital improvements are capitalized as construction-in-progress as the projects are constructed.

Depreciation of capital assets is computed and recorded utilizing the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 25 to 50 years; improvements, 25 to 50 years; equipment, 5 to 10 years; vehicles, 5 to 10 years.

**Accrued Liabilities and Long-Term Obligations**

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

**Bond Premiums**

In the entity-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums are deferred and amortized over the life of the bonds using the straight line method. See Note 10 for additional information.

**Compensated Absences**

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the entity-wide financial statements. The amounts have been recorded in the fund from which the employees, who have accumulated the leave, are paid.

Sick leave is accumulated without limit for each employee based upon negotiated contracts. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, retirement credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Retirement credit for unused sick leave is applicable to all academic employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

### Deferred Revenue

Deferred revenue arises when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Deferred revenues include (1) amounts received for tuition and fees prior to the end of the fiscal year that are related to the subsequent fiscal year and (2) amounts received from Federal and State grants received before the eligibility requirements are met.

### Noncurrent Liabilities

Noncurrent liabilities include bonds and notes payable, compensated absences, early retirement incentive, claims payable, capital lease obligations, and OPEB obligations with maturities greater than one year.

### Net Assets

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

**Invested in Capital Assets, Net of Related Debt**: Capital Assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. To the extent debt has been incurred, but not yet expended for capital assets, such accounts are not included as a component invested in capital assets – net of related debt.

**Restricted**: Net assets whose use by the District is subject to externally imposed constraints that can be fulfilled by actions of the District pursuant to those constraints or by the passage of time. Net assets may be restricted for capital projects, debt repayment, and/or educational programs. None of the District's restricted net assets have resulted from enabling legislation adopted by the District.

**Unrestricted**: Net assets that are not subject to externally imposed constraints. Unrestricted net assets may be designated for specific purposes by action of the Special Trustee and Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first and the unrestricted resources when they are needed. The entity-wide financial statements report $5,338,514 of restricted net assets. At June 30, 2012, the entity-wide financial statements report deficit unrestricted net assets in the amount of $15,159,277.

### State Apportionments

Certain current year apportionments from the State are based on financial and statistical information of the previous year. Any corrections due to the recalculation of the apportionment are made in February of the subsequent year. When known and measurable, these recalculations and corrections are accrued in the year in which the FTES are generated.

### Property Taxes

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

The voters of the District passed a General Obligation Bond in November 2002 for the acquisition, construction, and remodeling of certain District property. As a result of the passage of the Bond, property taxes are assessed on the property within the District specifically for the repayment of the debt incurred. The taxes are billed and collected as noted above and remitted to the District when collected.

### Board of Governors Grants (BOGG) and Fee Waivers

Student tuition and fee revenue is reported net of allowances and fee waivers approved by the Board of Governors through BOGG fee waivers in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances represent the difference between stated charges for enrollment fees and the amount that is paid by students or third parties making payments on the students' behalf. To the extent that fee waivers have been used to satisfy tuition and fee charges, the District has recorded a scholarship discount and allowance.

### On Behalf Payments

GASB Statement No. 24 requires direct on behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees for another legally separate entity be recognized as revenues and expenditures by the employer entity. The State of California makes direct on behalf payments to the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) on behalf of all community colleges in California. The California Department of Education has issued a fiscal advisory instructing districts not to record the revenue and expenditures for the on behalf payments within the funds and accounts of a district. The amount of the on behalf payments made for the District for the year ended June 30, 2012, was $588,348 for CalSTRS and $0 for CalPERS. These amounts are reflected in the District's audited financial statements.

### Estimates

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

### Interfund Activity

Interfund transfers and interfund receivables and payables are eliminated during the consolidation process in the District-wide financial statements.

**New Accounting Pronouncements**

From time to time, the Governmental Accounting Standards Board will issue additional guidance on the accounting and reporting for financial transactions affecting governmental entities. The following is a summary of the most recent pronouncements which will impact future reporting or accounting requirements for the District. The full text of the following statements, along with implementation guides, may be found on the GASB website: www.gasb.org.

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*.

> This Statement modifies and amends certain requirements for inclusion and reporting of component units in the financial reporting entity. Guidance is provided for both blended and discretely presented component units. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier implementation is encouraged. Management does not believe the implementation of this Statement will materially impact the reporting of the District or related component units for the June 30, 2013, financial statements.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

> The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included within other pronouncements issued on or before November 30, 1989, which does not conflict or contradict the GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier implementation is encouraged. The provisions of this Statement are required to be applied retroactively for all periods presented. Management is in the process of determining the impact to the District reporting for the June 30, 2013, financial statements.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

> This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier implementation is encouraged. Management does not believe the implementation of this Statement will materially impact the reporting of the District for the June 30, 2013, financial statements.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

> This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier implementation is encouraged. Management does not believe the implementation of this Statement will materially impact the reporting of the District for the June 30, 2014, financial statements.

In March 2012, GASB issued Statement No. 66, *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*.

> The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, GASB Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier implementation is encouraged. Management does not believe the implementation of this Statement will materially impact the reporting of the District for the June 30, 2014, financial statements.

In June 2012, GASB issued Statements No. 67, *Financial Reporting for Pension Plans*, and No. 68, *Accounting and Financial Reporting for Pensions - an amendment of Statement No. 27*.

> The primary objective of these Statements is to improve accounting and financial reporting by State and local governments for pensions. It also improves information provided by State and local governmental employers about financial support for pensions that is provided by other entities. This Statement and Statement No. 67 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement - determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. This Statement is effective for fiscal years beginning after June 15, 2014. Earlier implementation is encouraged. Management is in the process of determining the impact of both GASB Statements No. 67 and No. 68 on the June 30, 2015, financial statements.

## *NOTE 3 - DEPOSITS AND INVESTMENTS*

### Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium-term corporate notes; shares of beneficial interest issued by diversified management companies; certificates of participation; obligations with first priority security; and collateralized mortgage obligations.

**Investment in County Treasury -** The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* (ECS) Section 41001). The fair value of the District's investment in the pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

The District is an involuntary participant in the Los Angeles County investment pool. The pool is managed by the Los Angeles County Treasurer and is not registered as an investment company with the Securities Exchange Commission. Oversight of the pool is the responsibility of the County Treasury Oversight Committee. California Government Code statutes and the County Treasury Oversight Committee set forth the various investment policies that the Treasurer follows.

As provided by the Government Code, the cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing interest earnings through investment activities. Interest earned on pooled investments is deposited to the participating funds based upon the funds' average daily deposit balance during the allocation period.

### General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

| Authorized Investment Type | Maximum Remaining Maturity | Maximum Percentage of Portfolio | Maximum Investment in One Issuer |
|---|---|---|---|
| Local Agency Bonds, Notes, Warrants | 5 years | None | None |
| Registered State Bonds, Notes, Warrants | 5 years | None | None |
| U.S. Treasury Obligations | 5 years | None | None |
| U.S. Agency Securities | 5 years | None | None |
| Banker's Acceptance | 180 days | 40% | 30% |
| Commercial Paper | 270 days | 25% | 10% |
| Negotiable Certificates of Deposit | 5 years | 30% | None |
| Repurchase Agreements | 1 year | None | None |
| Reverse Repurchase Agreements | 92 days | 20% of base | None |
| Medium-Term Corporate Notes | 5 years | 30% | None |
| Mutual Funds | N/A | 20% | 10% |
| Money Market Mutual Funds | N/A | 20% | 10% |
| Mortgage Pass-Through Securities | 5 years | 20% | None |
| County Pooled Investment Funds | N/A | None | None |
| Local Agency Investment Fund (LAIF) | N/A | None | None |
| Joint Powers Authority Pools | N/A | None | None |

### Summary of Deposits and Investments

Deposits and investments as of June 30, 2012, consist of the following:

| | |
|---|---|
| Primary government | $ 32,393,301 |
| Fiduciary funds | 138,181 |
| Total Deposits and Investments | $ 32,531,482 |

| | |
|---|---|
| Cash on hand and in banks | $ 62,408 |
| Cash in revolving | 225,000 |
| Investments | 32,244,074 |
| Total Deposits and Investments | $ 32,531,482 |

### Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the Los Angeles County Investment Pool.

**Weighted Average Maturity**

The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Information about the weighted average maturity of the District's portfolio is presented in the following schedule:

| Investment Type | Fair Value | Weighted Average Days to Maturity |
|---|---|---|
| Los Angeles County Investment Pool | $ 32,342,908 | 617 |

**Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the Los Angeles County Investment Pool is not required to be rated, nor has it been rated as of June 30, 2012.

**Custodial Credit Risk - Deposits**

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2012, the District's bank balance of $287,408 was fully insured by the Federal Deposit Insurance Corporation (FDIC).

### *NOTE 4 - ACCOUNTS RECEIVABLE*

Accounts receivable for the District consisted primarily of intergovernmental grants, entitlements, interest, and other local sources. The accounts receivable are as follows:

| | Primary Government | Fiduciary Funds |
|---|---|---|
| Federal Government | | |
| Categorical aid | $ 437,174 | $ - |
| State Government | | |
| Apportionment | 9,177,484 | - |
| Categorical aid | 38,072 | - |
| Lottery | 521,494 | - |
| Other State sources | 435,000 | - |
| Local Sources | | |
| Interest | 59,563 | 146 |
| Other local sources | 1,400,276 | 57,512 |
| Total | $ 12,069,063 | $ 57,658 |

| | |
|---|---|
| Student receivables | $ 2,209,582 |
| Less: Allowance for bad debt | (1,076,920) |
| Student receivables, net | $ 1,132,662 |

## COMPTON COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS
## JUNE 30, 2012

### *NOTE 5 - CAPITAL ASSETS*

Capital asset activity for the District for the fiscal year ended June 30, 2012, was as follows:

| | Balance Beginning of Year | Additions | Deductions | Balance End of Year |
|---|---|---|---|---|
| Capital Assets Not Being Depreciated | | | | |
| Land | $ 2,324,000 | $ - | $ - | $ 2,324,000 |
| Construction in progress | 32,958,520 | 4,797,782 | - | 37,756,302 |
| Total Capital Assets Not Being Depreciated | 35,282,520 | 4,797,782 | - | 40,080,302 |
| Capital Assets Being Depreciated | | | | |
| Buildings and improvements | 49,741,902 | - | - | 49,741,902 |
| Site improvements | 2,929,087 | - | - | 2,929,087 |
| Furniture and equipment | 7,225,230 | 229,196 | - | 7,454,426 |
| Total Capital Assets Being Depreciated | 59,896,219 | 229,196 | - | 60,125,415 |
| Total Capital Assets | 95,178,739 | 5,026,978 | - | 100,205,717 |
| Less Accumulated Depreciation | | | | |
| Buildings and improvements | 11,593,416 | 951,263 | - | 12,544,679 |
| Site improvements | 1,112,512 | 131,965 | - | 1,244,477 |
| Furniture and equipment | 6,415,137 | 219,278 | - | 6,634,415 |
| Total Accumulated Depreciation | 19,121,065 | 1,302,506 | - | 20,423,571 |
| Net Capital Assets | $ 76,057,674 | $ 3,724,472 | $ - | $ 79,782,146 |

Depreciation expense for the year was $1,302,506.

The Learning Resource Center Building (LRC) is currently unoccupied and has not been placed into service though the construction is substantially complete. The LRC building is the subject of possible litigation revolving around structural integrity. The $19.2 million cost to date has been reported as part of work in progress.

### *NOTE 6 - ACCOUNTS PAYABLE*

Accounts payable for the District consisted of the following:

| | Primary Government | Fiduciary Funds |
|---|---|---|
| Accrued payroll | $ 1,692,691 | $ - |
| Apportionment | 401,510 | - |
| Construction | 392,865 | - |
| Vendor payables | 1,976,081 | 30,369 |
| Total | $ 4,463,147 | $ 30,369 |

### *NOTE 7 - DEFERRED REVENUE*

Deferred revenue for the District consisted of the following:

| | Primary Government |
|---|---|
| Federal financial assistance | $ 13,970 |
| State categorical aid | 183,099 |
| Other State | 607,358 |
| Student fees | 894,631 |
| Other local | 68,444 |
| Total | $ 1,767,502 |

### *NOTE 8 - INTERFUND TRANSACTIONS*

**Interfund Receivables and Payables (Due To/Due From)**

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund activity within the governmental funds has been eliminated in the consolidation process of the basic financial statements. At June 30, 2012, there were no balances due between the primary government and the fiduciary funds.

**Interfund Operating Transfers**

Operating transfers between funds of the District are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use restricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Operating transfers within the funds of the District have been eliminated in the consolidation process. Transfers between the primary government and the fiduciary funds are not eliminated in the consolidation process. During the 2011-2012 year, there were no amounts transferred between the primary government and the fiduciary funds.

## *NOTE 9 - TAX AND REVENUE ANTICIPATION NOTES (TRAN)*

The District issued $1,500,000 of Tax and Revenue Anticipation Notes dated February 23, 2012. The notes mature on January 31, 2013, and yield 1.00 percent interest. The notes were sold to supplement cash flow. Repayment requirements are that 50 percent of principal and interest be deposited to the Repayment Fund by November 30, 2012, and the remaining principal and interest deposited by December 31, 2012.

## *NOTE 10 - LONG-TERM OBLIGATIONS*

**Summary**

The changes in the District's long-term obligations during the 2012 fiscal year consisted of the following:

| | Balance Beginning of Year | Additions and Adjustments | Deductions | Balance End of Year | Due in One Year |
|---|---|---|---|---|---|
| Bonds and Notes Payable | | | | | |
| General obligation bonds | $ 49,855,000 | $ 15,001,122 | $ 1,245,000 | $ 63,611,122 | $ 1,345,000 |
| Bond premium | 1,833,221 | 289,907 | 113,488 | 2,009,640 | 122,185 |
| Note payable | 16,179,083 | - | 730,741 | 15,448,342 | 755,208 |
| Total Bonds and Notes Payable | 67,867,304 | 15,291,029 | 2,089,229 | 81,069,104 | 2,222,393 |
| Other Liabilities | | | | | |
| Compensated absences | 1,098,766 | - | 1,848 | 1,096,918 | - |
| Early retirement incentive | 214,976 | 549,210 | 271,071 | 493,115 | 163,586 |
| Claims liability | 2,009,000 | - | - | 2,009,000 | - |
| Other postemployment benefits | 3,114,455 | 1,531,757 | 706,901 | 3,939,311 | - |
| Total Other Liabilities | 6,437,197 | 2,080,967 | 979,820 | 7,538,344 | 163,586 |
| Total Long-Term Obligations | $ 74,304,501 | $ 17,371,996 | $ 3,069,049 | $ 88,607,448 | $ 2,385,979 |

The general obligation bonds are paid from property tax collections and are accounted for by the Los Angeles County Treasurer in the Bond Interest and Redemption Fund. The note payable is an advance apportionment appropriated by the State. Repayment is made from the unrestricted resources of the General Fund. Compensated absences and early retirement incentives are paid from the resources of the fund from which the employee liability was created. The claims liability is paid through a transfer from the General Fund to the Self-Insurance Fund. Other postemployment benefits are paid from the General Fund.

**Description of Debt**

General obligation bonds were approved by a local election in November 2002 under Proposition 39. The total amount approved by the voters was $100,000,000. At June 30, 2012, $71,000,000 had been issued and $63,611,122 was outstanding. Interest rates on the bonds range from 3.0 to 6.75 percent.

**Debt Maturity**

| Issue Date | Interest Rate | Original Issue | Bonds Outstanding July 1, 2011 | Issued | Redeemed | Bonds Outstanding June 30, 2012 |
|---|---|---|---|---|---|---|
| 1/14/2004 | 3.00-4.00% | $ 41,000,000 | $ 35,500,000 | $ - | $ 580,000 | $ 34,920,000 |
| 8/27/2009 | 3.00-6.75% | 15,000,000 | 14,355,000 | - | 665,000 | 13,690,000 |
| 4/10/2012 | 2.59-6.65% | 15,000,000 | - | 15,001,122 | - | 15,001,122 |
| | | $ 71,000,000 | $ 49,855,000 | $ 15,001,122 | $ 1,245,000 | $ 63,611,122 |

The 2002 Series A bonds mature through fiscal year 2029 as follows:

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2013 | $ 680,000 | $ 1,731,412 | $ 2,411,412 |
| 2014 | 790,000 | 1,703,713 | 2,493,713 |
| 2015 | 910,000 | 1,669,712 | 2,579,712 |
| 2016 | 1,035,000 | 1,625,638 | 2,660,638 |
| 2017 | 1,185,000 | 1,574,581 | 2,759,581 |
| 2018-2022 | 8,485,000 | 6,733,094 | 15,218,094 |
| 2023-2027 | 14,150,000 | 3,834,744 | 17,984,744 |
| 2028-2029 | 7,685,000 | 392,375 | 8,077,375 |
| Total | $ 34,920,000 | $ 19,265,269 | $ 54,185,269 |

The 2002 Series B bonds mature through fiscal year 2035 as follows:

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2013 | $ 115,000 | $ 861,911 | $ 976,911 |
| 2014 | 140,000 | 857,664 | 997,664 |
| 2015 | 165,000 | 851,914 | 1,016,914 |
| 2016 | 190,000 | 844,695 | 1,034,695 |
| 2017 | 220,000 | 835,964 | 1,055,964 |
| 2018-2022 | 1,615,000 | 3,975,260 | 5,590,260 |
| 2023-2027 | 2,780,000 | 3,063,716 | 5,843,716 |
| 2028-2032 | 4,560,000 | 2,298,113 | 6,858,113 |
| 2033-2035 | 3,905,000 | 542,363 | 4,447,363 |
| Total | $ 13,690,000 | $ 14,131,600 | $ 27,821,600 |

The 2002 Series C bonds mature through fiscal year 2038 as follows:

| Fiscal Year | Principal | Accreted Interest | Interest | Total |
|---|---|---|---|---|
| 2013 | $ - | $ - | $ 315,129 | $ 315,129 |
| 2014 | - | - | 389,850 | 389,850 |
| 2015 | 146,059 | 8,940 | 389,850 | 544,849 |
| 2016 | 150,008 | 14,992 | 389,850 | 554,850 |
| 2017 | 139,192 | 20,808 | 389,850 | 549,850 |
| 2018-2022 | 918,113 | 211,887 | 1,943,650 | 3,073,650 |
| 2023-2027 | 1,429,455 | 1,160,545 | 1,823,950 | 4,413,950 |
| 2028-2032 | 2,319,630 | 5,335,369 | 1,816,250 | 9,471,249 |
| 2033-2037 | 5,858,665 | 9,331,335 | 1,735,625 | 16,925,625 |
| 2038 | 4,040,000 | - | 101,000 | 4,141,000 |
| Total | $ 15,001,122 | $ 16,083,876 | $ 9,295,004 | $ 40,380,003 |

### Note Payable

Assembly Bill 318 appropriated $30 million to the Board of Governors of the California Community Colleges as an emergency apportionment to finance, among other things, activities described in Article 5 of Chapter 5, Part 46 of the Education Code. The balance available to the District is $12,103,200. The financing does not constitute a borrowing, but is instead an advance apportionment subject to repayment with interest. At June 30, 2012, the District had received $17,896,800 with $15,448,342 outstanding.

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2013 | $ 755,208 | $ 537,212 | $ 1,292,420 |
| 2014 | 780,692 | 511,728 | 1,292,420 |
| 2015 | 807,241 | 485,179 | 1,292,420 |
| 2016 | 834,904 | 457,516 | 1,292,420 |
| 2017 | 863,734 | 428,686 | 1,292,420 |
| 2018-2022 | 4,795,969 | 1,666,131 | 6,462,100 |
| 2023-2027 | 5,726,788 | 735,314 | 6,462,102 |
| 2028-2029 | 883,806 | 20,592 | 904,398 |
| Total | $ 15,448,342 | $ 4,842,358 | $ 20,290,700 |

### Compensated Absences

At June 30, 2012, the liability for compensated absences was $1,096,918.

### Early Retirement Incentives

The District has approved an Early Retirement Incentive Program in accordance with CalSTRS which is summarized below. A total of nine employees are participating in the program. Payments to CalSTRS will occur through 2013 as follows:

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2013 | $ 53,747 | $ 3,524 | $ 57,271 |

The District has approved an Early Retirement Incentive Program in accordance with Public Agency Retirement Services (PARS) which is summarized below. A total of nine employees are participating in the program. Payments to PARS will occur through 2017 as follows:

| Fiscal Year | Total |
|---|---|
| 2013 | $ 109,839 |
| 2014 | 109,843 |
| 2015 | 109,843 |
| 2016 | 109,843 |
| Total | $ 439,368 |

### Claims Liability

At June 30, 2012, the liability for claims liability was $2,009,000. See Note 12 for additional information.

**Other Postemployment Benefits (OPEB) Obligation**

The District's annual required contribution for the year ended June 30, 2012, was $1,513,980, and contributions made by the District during the year were $706,901. Interest on the net OPEB obligation and adjustments to the annual required contribution were $155,723 and $(137,946), respectively, which resulted in an increase to the net OPEB obligation of $824,856. As of June 30, 2012, the net OPEB obligation was $3,939,311. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefits plan.

## *NOTE 11 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION*

The District provides postemployment health care benefits for retired employees in accordance with negotiated contracts with the various bargaining units of the District.

**Plan Description**

The Compton Community College Plan (the Plan) is a single-employer defined benefit healthcare plan administered by Compton Community College District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 73 retirees and beneficiaries currently receiving benefits and 231 active plan members.

**Funding Policy**

The contribution requirements of plan members and the District are established and may be amended by the District and the District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements with an additional amount to prefund benefits as determined annually through agreements between the District and the bargaining units. For fiscal year 2011-2012, the District contributed $706,901 to the Plan, all of which was used for current premiums.

**Annual OPEB Cost and Net OPEB Obligation**

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the payments of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding costs) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan:

| | |
|---|---|
| Annual required contribution | $ 1,513,980 |
| Interest on net OPEB obligation | 155,723 |
| Adjustment to annual required contribution | (137,946) |
| Annual OPEB cost (expense) | 1,531,757 |
| Contributions made | (706,901) |
| Increase in net OPEB obligation | 824,856 |
| Net OPEB obligation, beginning of year | 3,114,455 |
| Net OPEB obligation, end of year | $ 3,939,311 |

**Trend Information**

Trend information for the annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the past three years is as follows:

| Year Ended June 30, | Annual OPEB Cost | Actual Contribution | Percentage Contributed | Net OPEB Obligation |
|---|---|---|---|---|
| 2010 | $ 1,418,148 | $ 326,421 | 23% | $ 2,111,857 |
| 2011 | 1,526,034 | 523,436 | 34% | 3,114,455 |
| 2012 | 1,531,757 | 706,901 | 46% | 3,939,311 |

**Funding Status and Funding Progress**

| | |
|---|---|
| Actuarial Accrued Liability (AAL) | $ 15,723,057 |
| Actuarial Value of Plan Assets | - |
| Unfunded Actuarial Accrued Liability (UAAL) | $ 15,723,057 |
| | |
| Funded Ratio (Actuarial Value of Plan Assets/AAL) | 0.00% |
| Covered Payroll | N/A |
| UAAL as Percentage of Covered Payroll | N/A |

The above noted actuarial accrued liability was based on the March 1, 2011, actuarial valuation. Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information, follows the notes to the financial statements and presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and the Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial values of assets, consistent with the long-term perspective of the calculations.

In the March 1, 2011, actuarial valuation, the entity age normal cost method was used. The actuarial assumptions included a five percent investment rate of return. The District has not formed an irrevocable trust and currently funds the benefits on a strictly pay-as-you-go basis. Healthcare cost trend rates at four percent per year. The UAAL is being amortized at a level percentage of payroll method using a 30 year amortization period. Because the District has not elected to establish an irrevocable trust, there are not plan assets and, therefore, there was no valuation of plan assets.

## *NOTE 12 - RISK MANAGEMENT*

**Insurance Coverages**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters.

**Joint Powers Authority Risk Pools**

During fiscal year ending June 30, 2012, the District contracted with the Statewide Association of Community Colleges (SWACC) Joint Powers Authority for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

**Workers' Compensation**

The District is self-insured for the first $500,000 of each workers' compensation claim. The District also participated in School Alliance for Workers Compensation Excess II Joint Powers Authority to provide excess workers' compensation coverage.

**Claims Liability**

The District records an estimated liability for workers' compensation claims against the District. Claims liability is based on the ultimate cost of the reported claims including future claim adjustment expense and an estimate for claims incurred, but not reported, based on historical experience. The amount of the liability is based on Bay Actuarial Consultants report dated June 7, 2007. The projected liability for unpaid losses reported in the Statement of Net Assets is $2,009,000 and was calculated using the expected confidence level discounted at three percent. Changes in the reported liability are shown in the following table:

| | Workers' Compensation |
|---|---|
| Liability Balance, July 1, 2010 | $ 1,716,000 |
| Claims and changes in estimates | 630,686 |
| Claims payments | (337,686) |
| Liability Balance, June 30, 2011 | 2,009,000 |
| Claims and changes in estimates | 313,999 |
| Claims payments | (313,999) |
| Liability Balance, June 30, 2012 | $ 2,009,000 |
| Assets Available to Pay Claims at June 30, 2012 | $ 2,013,988 |

***NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS***

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

### CalSTRS

#### Plan Description

The District contributes to CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, California 95826.

#### Funding Policy

Active members of the DB Plan are required to contribute 8.0 percent of their salary while the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2011-2012 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The CB Benefit Program is an alternative CalSTRS contribution plan for instructors. Instructors who choose not to sign up for the DB Plan or FICA may participate in the CB Benefit Program. The District contribution rate for the CB Benefit Program is always a minimum of four percent with the sum of the District and employee contribution always being equal or greater than 8.0 percent. The District's total contributions to CalSTRS for the fiscal years ended June 30, 2012, 2011, and 2010, were $898,835, $1,026,063, and $1,000,465, respectively, and equal 100 percent of the required contributions for each year.

### CalPERS

#### Plan Description

The District contributes to the School Employer Pool under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95811.

#### Funding Policy

Active plan members are required to contribute 7.0 percent of their salary (7.0 percent of monthly salary over $133.33 if the member participates in Social Security), and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The District's contribution rate to CalPERS for fiscal year 2011-2012 was 10.923 percent of covered payroll. The District's contributions to CalPERS for fiscal years ending June 30, 2012, 2011, and 2010, were $744,544, $757,542, and $648,962, respectively, and equaled 100 percent of the required contributions for each year.

**On Behalf Payments**

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS which amounted to $588,348 (4.855 percent) of salaries subject to CalSTRS. Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. These amounts have been reflected in the basic financial statements as a component of nonoperating revenue and employee benefit expense.

## *NOTE 14 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES*

The District is a member of the Statewide Association of Community Colleges (SWACC) and School Alliance for Workers' Compensation Excess II (SAWCX II) Joint Powers Authority. The District pays annual premiums for its property liability and excess workers' compensation coverage. The relationship between the District and each Joint Powers Authority (JPA) is such that they are not component units of the District for financial reporting purposes.

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

The District's share of year-end assets, liabilities, or fund equity has not been calculated.

During the year ended June 30, 2012, the District made payments of $312,750 and $41,527 to SWACC and SAWCX II, respectively.

## *NOTE 15 - RESTATEMENT OF BEGINNING NET ASSETS*

The financial statements reflect a correction of accumulated accounting errors which were discovered and corrected by management.

| | |
|---|---|
| Net Asset Balance June 30, 2011 | $ 26,983,355 |
| Adjustment to reflect a write-off of uncollectable accounts receivable | 260,000 |
| Adjustment to reflect an over-accrual of payments to vendors for construction projects | 1,122,337 |
| Adjustment to reflect a double posting of a prior year audit adjustment | (205,222) |
| Net Asset Balance as Restated | $ 28,160,470 |

## *NOTE 16 - COMMITMENTS AND CONTINGENCIES*

### Deferral of State Apportionments

Due to the inability of the California State legislature to enact a budget by June 30, 2012, certain apportionments owed to the District for funding of FTES, which are attributable to the 2011-2012 fiscal year, have been deferred to the 2012-2013 fiscal year. The total amount of funding deferred into the 2012-2013 fiscal year was $9,177,484. As of July 31, 2012, this amount has been received.

### Financial Condition

The Compton Community College District has continued to deal with the State-wide recessionary economy within California. As noted above, the State has been withholding the cash for apportionment funding beyond June 30. This has created shortfalls in cash flows which have resulted in the need to utilize short-term borrowings in the form of Tax and Revenue Anticipation Notes. The District has received a line of credit through the California Community Colleges Chancellor's Office in the form of an Advance Apportionment as a result of Assembly Bill 318. This has not, however, eased the strain on the current resources and budget of the District. No additional amounts have been drawn down from the line of credit during the 2011-2012 fiscal year; however, the District is responsible for repayment of both principal and interest from the Unrestricted General Fund which, for the 2011-2012 year, was $1,292,420. The ending fund balance in the Unrestricted General Fund increased by $1,336,726 during 2011-2012 and did meet the State recommendation of providing a five percent reserve for economic uncertainties going into the 2012-2013 fiscal year.

Continued reductions in State funding are anticipated during 2012-2013, and the State has increased the deferral of apportionment payments – both in amount and in duration – with an anticipated $9.1 million being deferred into the July through October 2013 timeframe.

Budgetary reductions have been implemented in a variety of areas; however, these continued reductions and cash flow shortfalls are negatively impacting the District's ability to achieve financial stability on a long-term basis.

On an entity-wide basis, the financial statements are showing a deficit unrestricted ending balance in the amount of $15,159,272. This is due primarily to the long-term obligations of the District. General obligation bonds have been issued to provide funding for approved construction projects throughout the District and while these will be paid from assessments on property throughout the District boundaries and not resources of the District itself, the obligation is included within the financial statements of the District. The District has borrowed over $16 million from future apportionments which will result in decreases in funding from the State Chancellor's Office in future years. Additionally, obligations to current employees, as well as retirees for health benefit costs, are $3.9 million at June 30, 2012, and are anticipated to grow to $15.7 million over the next 25 years as the costs of these benefits are amortized. This obligation is currently not funded.

The ability of the District to maintain financial stability is dependent both on current term funding and the ability to meet the obligations noted above as they come due.

**Grants**

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2012.

**Litigation**

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2012.

**Construction Commitments**

The District is currently in the midst of various construction projects funded primarily through the General Obligation Bonds as well as State approved construction grants.

## *NOTE 17 - ACCREDITATION*

The Compton Community College District's accreditation was revoked as a community college district effective July 14, 2006. As a result, the educational and student financial aid programs have been administered through the El Camino Community College District as the El Camino College Compton Center. This revocation of accreditation was the result of deficiencies in the education programs, student support programs, governance, and fiscal stability. The District is under the oversight and governance of a Special Trustee, and the governance authority of the Board has been suspended.

The District is currently working with the El Camino Community College District to implement improvements and processes to regain full and independent accreditation to serve the community and students of Compton and surrounding areas. This process is anticipated to take several years.

## *NOTE 18 - SUBSEQUENT EVENTS*

The District issued $4,000,000 of Tax and Revenue Anticipation Notes dated July 2, 2012. The notes mature on June 30, 2012, and yield .45 percent interest. The notes were sold to supplement cash flow. Repayment requirements are that a percentage of principal and interest be deposited with the Fiscal Agent each month beginning January 2013, until 100 percent of principal and interest due is on account in February 2013.

# *REQUIRED SUPPLEMENTARY INFORMATION*

## COMPTON COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS
## FOR THE YEAR ENDED JUNE 30, 2012

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age Normal Cost Method (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a / b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ([b - a] / c) |
|---|---|---|---|---|---|---|
| October 1, 2009 | $ - | $ 15,327,267 | $ 15,327,267 | 0% | N/A | N/A |
| March 1, 2011 | - | 15,723,057 | 15,723,057 | 0% | N/A | N/A |

# *SUPPLEMENTARY INFORMATION*

# COMPTON COMMUNITY COLLEGE DISTRICT

## DISTRICT ORGANIZATION
## JUNE 30, 2012

The Compton Community College District was established on July 1, 1927, and is comprised of an area of approximately 29 square miles located in Los Angeles County. The Assembly Bill 61 authorized the Board of Governors to suspend the authority of the Special Trustee and Board of Trustees of the District effective 2006, due to the loss of accreditation. The student academic programs, including student financial aid, are administered through the El Camino Community College District as the El Camino College Compton Center. Assembly Bill 318 extended the provisions of Assembly Bill 61 to a period of five years from the effective date of the Bill which was June 30, 2006, plus a period lasting until the State Chancellor, FCMAT, Director of Finance, and the Secretary of Education concur with the Special Trustee that the District has met the requirements in Assembly Bill 318.

**SPECIAL TRUSTEE**

Mr. Thomas E. Henry

**BOARD OF TRUSTEES – NON-VOTING**

| MEMBER | TERM EXPIRES |
|---|---|
| Ms. Lorraine Cervantes | December 2013 |
| Mr. Andres Ramos | December 2013 |
| Mr. Charles Davis | December 2013 |
| Dr. John Hamilton | December 2013 |
| Dr. Deborah Sims LeBlanc | December 2013 |

**ADMINISTRATION**

| | |
|---|---|
| Dr. Keith Curry | Interim Chief Executive Officer |
| Ms. Barbara Perez | Vice President, Compton Center |
| Mr. Felipe R. Lopez | Chief Business Officer |
| Ms. Rachelle Sasser | Dean, Human Resources |
| Ms. Valerie O'Guynn [1] | Interim Dean, Student Services |
| Dr. Susan Dever | Dean, Academic Affairs |
| Dr. Rodney Murray | Dean, Career Technology Education |
| Ms. Wanda Morris | Dean, Health and Human Services |

[1] Ricky Shabazz, Ed.D assumed the permanent Dean of Student Services as of September 1, 2012.

See accompanying note to supplementary information.

# COMPTON COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## FOR THE YEAR ENDED JUNE 30, 2012

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures |
|---|---|---|---|
| U.S. DEPARTMENT OF EDUCATION | | | |
| Direct Funded: | | | |
| TRIO Cluster: | | | |
| Upward Bound | 84.047A | | $ 391,653 |
| Upward Bound Math and Science | 84.047M | | 213,113 |
| Total TRIO Cluster | | | 604,766 |
| Total U.S. Department of Education | | | 604,766 |
| | | | |
| U.S. DEPARTMENT OF AGRICULTURE | | | |
| Passed through the California Department of Education: | | | |
| Child and Adult Food Care Program | 10.558 | 04055-CACFP-19-7-IC | 68,259 |
| | | | |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | |
| Passed through the California Community Colleges Chancellor's Office: | | | |
| Temporary Assistance for Needy Families (TANF) | 93.558 | [1] | 128,667 |
| Foster and Kinship Care Education (FKCE) | 93.658 | [1] | 126,297 |
| Passed through the California Community Colleges Foundation: | | | |
| Permanency and Safety - Model Approach to Partnerships in Permanency and Safety - PS MAPP | 93.674 | [1] | 14,996 |
| Youth Empowerment Strategies for Success Independent Living (YESS ILP) | 93.674 | [1] | 22,613 |
| Passed through the California Department of Education: | | | |
| Child Care and Development Fund (CCDF) Cluster: | | | |
| Child Care Mandatory and Matching Funds of the Child Care and Development Fund | 93.596 | CCTR-1092 | 70,021 |
| Child Care and Development Block Grant | 93.575 | CCTR-1092 | 38,542 |
| Child Care Mandatory and Matching Funds of the Child Care and Development Fund | 93.596 | CSPP-1177 | 76,561 |
| Child Care and Development Block Grant | 93.575 | CSPP-1177 | 42,146 |
| Passed through the Yosemite Community College District, Child Development Training Consortium: | | | |
| Child Development Training Consortium | 93.575 | 11-12-4159 | 6,691 |
| Total CCDF Cluster | | | 233,961 |
| Total U.S. Department of Health and Human Services | | | 526,534 |
| | | | |
| Total Expenditures of Federal Awards | | | $ 1,199,559 |

[1] Pass-through entity identifying number not available.

See accompanying note to supplementary information.

**COMPTON COMMUNITY COLLEGE DISTRICT**

**SCHEDULE OF EXPENDITURES OF STATE AWARDS**
**FOR THE YEAR ENDED JUNE 30, 2012**

| | Program Entitlements | | |
|---|---|---|---|
| Program | Current Year | Prior Year | Total Entitlement |
| GENERAL FUND | | | |
| Basic Skills | $ 96,158 | $ 126,775 | $ 222,933 |
| Board of Financial Assistance Program | 251,866 | 53,106 | 304,972 |
| CalWORKs | 409,188 | - | 409,188 |
| CalWORKs (Department of Public Social Services) | 136,000 | - | 136,000 |
| Cooperative Agencies Resources for Education (CARE) | 391,018 | 34,134 | 425,152 |
| Disabled Students Program Services | 161,649 | - | 161,649 |
| Extended Opportunity Program and Services | 714,004 | 6,449 | 720,453 |
| Faculty and Staff Diversity | 4,173 | - | 4,173 |
| Matriculation | 158,542 | - | 158,542 |
| CHILD DEVELOPMENT FUND | | | |
| General Child Care and Development Program | 183,167 | - | 183,167 |
| California State Preschool Program | 209,117 | - | 209,117 |
| Child and Adult Care Food Program | 3,643 | - | 3,643 |
| Total State Programs | | | |

See accompanying note to supplementary information.

| Program Revenues | | | | |
|---|---|---|---|---|
| Cash Received | Accounts Receivable | Deferred Revenue | Total Revenue | Program Expenditures |
| $ 222,933 | $ - | $ 88,246 | $ 134,687 | $ 134,687 |
| 304,972 | - | - | 304,972 | 305,058 |
| 405,910 | 3,278 | - | 409,188 | 409,188 |
| 124,319 | 11,605 | - | 135,924 | 135,924 |
| 425,152 | - | 73,246 | 351,906 | 351,906 |
| 161,649 | - | - | 161,649 | 162,378 |
| 729,302 | - | 17,434 | 711,868 | 711,868 |
| 4,173 | - | 4,173 | - | - |
| 158,542 | - | - | 158,542 | 216,595 |
| | | | | |
| 161,831 | 21,336 | - | 183,167 | 210,668 |
| 208,191 | 926 | - | 209,117 | 227,099 |
| 2,716 | 927 | - | 3,643 | 3,643 |
| $ 2,909,690 | $ 38,072 | $ 183,099 | $ 2,764,663 | $ 2,869,014 |

## COMPTON COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT ANNUAL (ACTUAL) ATTENDANCE AS OF JUNE 30, 2012

| CATEGORIES | Reported Data | Audit Adjustments | Audited Data |
|---|---|---|---|
| **A. Summer Intersession (Summer 2011 only)** | | | |
| 1. Noncredit* | 5 | - | 5 |
| 2. Credit | 999 | - | 999 |
| **B. Summer Intersession (Summer 2012 - Prior to July 1, 2012)** | | | |
| 1. Noncredit* | - | - | - |
| 2. Credit | - | - | - |
| **C. Primary Terms (Exclusive of Summer Intersession)** | | | |
| 1. Census Procedure Courses | | | |
| (a) Weekly Census Contact Hours | 3,923 | - | 3,923 |
| (b) Daily Census Contact Hours | 776 | - | 776 |
| 2. Actual Hours of Attendance Procedure Courses | | | |
| (a) Noncredit* | 21 | - | 21 |
| (b) Credit | 145 | - | 145 |
| 3. Independent Study/Work Experience | | | |
| (a) Weekly Census Contact Hours | 407 | - | 407 |
| (b) Daily Census Contact Hours | 99 | - | 99 |
| **D. Total FTES** | 6,375 | - | 6,375 |

* Including Career Development and College Preparation (CDCP) FTES.

See accompanying note to supplementary information.

**COMPTON COMMUNITY COLLEGE DISTRICT**

## RECONCILIATION OF *EDUCATION CODE* SECTION 84362 (50 PERCENT LAW) CALCULATION
## FOR THE YEAR ENDED JUNE 30, 2012

| | | ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110 | | | ECS 84362 B Total CEE AC 0100 - 6799 | | |
|---|---|---|---|---|---|---|---|
| | Object/TOP Codes | Reported Data | Audit Adjustments | Revised Data | Reported Data | Audit Adjustments | Revised Data |
| <u>**Academic Salaries**</u> | | | | | | | |
| **Instructional Salaries** | | | | | | | |
| Contract or Regular | 1100 | $ 5,787,767 | $ - | $ 5,787,767 | $ 5,787,768 | $ - | $ 5,787,768 |
| Other | 1300 | 3,513,288 | - | 3,513,288 | 3,513,288 | - | 3,513,288 |
| **Total Instructional Salaries** | | 9,301,055 | - | 9,301,055 | 9,301,056 | - | 9,301,056 |
| **Noninstructional Salaries** | | | | | | | |
| Contract or Regular | 1200 | - | - | - | 2,195,555 | - | 2,195,555 |
| Other | 1400 | - | - | - | 213,503 | (126,856) | 86,647 |
| **Total Noninstructional Salaries** | | - | - | - | 2,409,058 | (126,856) | 2,282,202 |
| **Total Academic Salaries** | | 9,301,055 | - | 9,301,055 | 11,710,114 | (126,856) | 11,583,258 |
| <u>**Classified Salaries**</u> | | | | | | | |
| **Noninstructional Salaries** | | | | | | | |
| Regular Status | 2100 | - | - | - | 4,259,082 | - | 4,259,082 |
| Other | 2300 | - | - | - | 634,738 | - | 634,738 |
| **Total Noninstructional Salaries** | | - | - | - | 4,893,820 | - | 4,893,820 |
| **Instructional Aides** | | | | | | | |
| Regular Status | 2200 | 535,799 | - | 535,799 | 535,799 | - | 535,799 |
| Other | 2400 | 128,753 | - | 128,753 | 128,753 | (181,776) | (53,023) |
| **Total Instructional Aides** | | 664,552 | - | 664,552 | 664,552 | (181,776) | 482,776 |
| **Total Classified Salaries** | | 664,552 | - | 664,552 | 5,558,372 | (181,776) | 5,376,596 |
| Employee Benefits | 3000 | 2,402,766 | 380,405 | 2,783,171 | 5,318,761 | 14,738 | 5,333,499 |
| Supplies and Material | 4000 | - | - | - | 397,764 | - | 397,764 |
| Other Operating Expenses | 5000 | 199,577 | - | 199,577 | 4,098,383 | 11,135 | 4,109,518 |
| Equipment Replacement | 6420 | - | - | - | - | - | - |
| **Total Expenditures Prior to Exclusions** | | 12,567,950 | 380,405 | 12,948,355 | 27,083,394 | (282,759) | 26,800,635 |

See accompanying note to supplementary information.

COMPTON COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF *EDUCATION CODE* SECTION 84362 (50 PERCENT LAW) CALCULATION
FOR THE YEAR ENDED JUNE 30, 2012

| | | ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110 | | | ECS 84362 B Total CEE AC 0100 - 6799 | | |
|---|---|---|---|---|---|---|---|
| | Object/TOP Codes | Reported Data | Audit Adjustments | Revised Data | Reported Data | Audit Adjustments | Revised Data |
| **Exclusions** | | | | | | | |
| **Activities to Exclude** | | | | | | | |
| Instructional Staff - Retirees' Benefits and Retirement Incentives | 5900 | $ - | $ 380,405 | $ 380,405 | $ 760,812 | $ (380,405) | $ 380,407 |
| Student Health Services Above Amount Collected | 6441 | - | - | - | - | - | - |
| Student Transportation | 6491 | - | - | - | - | - | - |
| Noninstructional Staff - Retirees' Benefits and Retirement Incentives | 6740 | - | - | - | - | - | - |
| **Objects to Exclude** | | | | | | | |
| Rents and Leases | 5060 | - | - | - | 265,954 | - | 265,954 |
| Lottery Expenditures | | | | | | | - |
| Academic Salaries | 1000 | - | - | - | 847,619 | (847,619) | - |
| Classified Salaries | 2000 | - | - | - | - | - | - |
| Employee Benefits | 3000 | - | - | - | - | - | - |
| Supplies and Materials | 4000 | - | - | - | - | - | - |
| Software | 4100 | - | - | - | - | - | - |
| Books, Magazines, and Periodicals | 4200 | - | - | - | - | - | - |
| Instructional Supplies and Materials | 4300 | - | - | - | 174,899 | (1,311) | 173,588 |
| Noninstructional Supplies and Materials | 4400 | - | - | - | - | - | - |
| **Total Supplies and Materials** | | - | - | - | 174,899 | (1,311) | 173,588 |

See accompanying note to supplementary information.

## COMPTON COMMUNITY COLLEGE DISTRICT

## RECONCILIATION OF *EDUCATION CODE* SECTION 84362 (50 PERCENT LAW) CALCULATION
## FOR THE YEAR ENDED JUNE 30, 2012

| | | ECS 84362 A<br>Instructional Salary Cost<br>AC 0100 - 5900 and AC 6110 | | | ECS 84362 B<br>Total CEE<br>AC 0100 - 6799 | | |
|---|---|---|---|---|---|---|---|
| | Object/TOP Codes | Reported Data | Audit Adjustments | Revised Data | Reported Data | Audit Adjustments | Revised Data |
| Other Operating Expenses and Services | 5000 | $ - | $ - | $ - | $ 143,558 | $ 705,372 | $ 848,930 |
| Capital Outlay | | | | | | | |
| Library Books | 6000 | - | - | - | - | - | - |
| Equipment | 6300 | - | - | - | - | - | - |
| Equipment - Additional | 6400 | - | - | - | - | - | - |
| Equipment - Replacement | 6410 | - | - | - | - | - | - |
| **Total Equipment** | | - | - | - | - | - | - |
| **Total Capital Outlay** | | | | | | | |
| Other Outgo | 7000 | - | - | - | - | - | - |
| **Total Exclusions** | | - | 380,405 | 380,405 | 2,192,842 | (523,963) | 1,668,879 |
| **Total for ECS 84362, 50 Percent Law** | | $ 12,567,950 | $ - | $ 12,567,950 | $ 24,890,552 | $ 241,204 | $ 25,131,756 |
| **Percent of CEE (Instructional Salary Cost/Total CEE)** | | 50.49% | | 50.01% | 100.00% | | 100.00% |
| **50% of Current Expense of Education** | | | | | $ 12,445,276 | | $ 12,565,878 |

See accompanying note to supplementary information.

## COMPTON COMMUNITY COLLEGE DISTRICT

## RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH FUND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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

| | Capital Outlay Projects | Revenue Bond Fund |
|---|---|---|
| FUND BALANCE | | |
| Balance, June 30, 2012, (CCFS-311) | $ 2,297,971 | $ 23,487,490 |
| Transfers of expenditures between funds | (845,385) | 845,385 |
| Balance, June 30, 2012, Fund Financial Statements | $ 1,452,586 | $ 24,332,875 |

See accompanying note to supplementary information.

## COMPTON COMMUNITY COLLEGE DISTRICT

## RECONCILIATION OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
## JUNE 30, 2012

| | | |
|---|---|---|
| **Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:** | | |
| **Total Fund Balance:** | | |
| General Funds | $ 7,308,501 | |
| Special Revenue Funds | 38,611 | |
| Capital Project Funds | 25,785,461 | |
| Debt Service Funds | 2,253,338 | |
| Internal Service Funds | 4,988 | |
| Fiduciary Funds | 464,479 | |
| **Total Fund Balance - All District Funds** | | **$ 35,855,378** |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. | | |
| The cost of capital assets is: | 100,205,717 | |
| Accumulated depreciation is: | (20,423,571) | |
| | | 79,782,146 |
| Certain costs related to the issuance of long-term obligations are recorded as expenditures in the year of issuance in the governmental funds, but are capitalized in the Statement of Net Assets and amortized over the life of the related long-term obligations. | | 951,899 |
| In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred. | | (1,317,479) |
| Long-term obligations at year-end consist of: | | |
| Bonds payable | 63,611,122 | |
| Premium on bond | 2,009,640 | |
| Notes payable | 15,448,342 | |
| Compensated absences | 1,096,918 | |
| Other postemployment benefits (OPEB) | 3,939,311 | |
| Early retirement incentive - CalSTRS | 493,115 | (86,598,448) |
| **Total Net Assets** | | **$ 28,673,496** |

See accompanying note to supplementary information.

## COMPTON COMMUNITY COLLEGE DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION
## JUNE 30, 2012

### *NOTE 1 - PURPOSE OF SCHEDULES*

**District Organization**

This schedule provides information about the District's governing board members and administration members.

**Schedule of Expenditures of Federal Awards**

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the financial statements. The information in this schedule is presented to comply with reporting requirements of OMB Circular A-133. The following schedule reconciles the revenue reported in the Statement of Revenues, Expenses, and Changes in Net Assets with the expenditures reported in the Schedule of Expenditures of Federal Awards.

| Description | Program Expenditures |
|---|---|
| Total Federal Revenues From the Statement of Revenues, Expenses, and Changes in Net Assets: | $ 1,167,024 |
| Child and Adult Food Care Program | 10,520 |
| Foster and Kinship Care Education Program (FKCE) | 1,265 |
| Upward Bound | 25,275 |
| Medi-Cal Administration Activities Program | (28,087) |
| Child Care Mandatory and Matching Funds of the Child Care and Development Fund | 15,194 |
| Child Care and Development Block Grant | 8,368 |
| Total Schedule of Expenditures of Federal Awards | $ 1,199,559 |

**Schedule of Expenditures of State Awards**

The accompanying Schedule of Expenditures of State Awards includes the State grant activity of the District and is presented on the modified accrual basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the financial statements. The information in this schedule is presented to comply with reporting requirements of the California State Chancellor's Office.

**Schedule of Workload Measures for State General Apportionment Annual (Actual) Attendance**

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

# COMPTON COMMUNITY COLLEGE DISTRICT

# NOTE TO SUPPLEMENTARY INFORMATION
# JUNE 30, 2012

**Reconciliation of *Education Code* Section 84362 (50 Percent Law) Calculation**

ECS 84362 requires the District to expend a minimum of 50 percent of the unrestricted General Fund monies on salaries of classroom instructors. This is reported annually to the State Chancellor's Office. This schedule provides a reconciliation of the amount reported to the State Chancellor's Office and the impact of any audit adjustments and/or corrections noted during the audit.

**Reconciliation of Annual Financial and Budget Report (CCFS-311) With Fund Financial Statements**

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

**Reconciliation of Governmental Funds to the Statement of Net Assets**

This schedule provides a reconciliation of the adjustments necessary to bring the District's internal fund financial statements, prepared on a modified accrual basis, to the entity-wide full accrual basis financial statements required under GASB Statements No. 34 and No. 35 business-type activities reporting model.

# *INDEPENDENT AUDITORS' REPORTS*

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

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

Special Trustee and Board of Trustees
Compton Community College District
Compton, California

We have audited the basic financial statements of Compton Community College District (the District) for the year ended June 30, 2012, and have issued our report thereon dated December 7, 2012. 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.

As discussed in Note 16 to the financial statements, the State of California continues to suffer the effects of a recessionary economy, which directly impacts the funding formula of Compton Community College District.

**Internal Control Over Financial Reporting**

Management of Compton Community College District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audits, we considered Compton Community College District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Compton Community College District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Compton Community College District's internal control over financial reporting.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.



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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be significant deficiencies in internal control over financial reporting. These are noted as items 2012-1 through 2012-10. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Compton Community College District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Compton Community College District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Compton Community College District's responses and, accordingly, express no opinion on the responses.

This report is intended solely for the information and use of the Special Trustee, Board of Trustees, District Management, the California Community Colleges Chancellor's Office, and the District's Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 7, 2012

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Special Trustee and Board of Trustees
Compton Community College District
Compton, California

**Compliance**

We have audited Compton Community College District's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Compton Community College District's major Federal programs for the year ended June 30, 2012. Compton Community College 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 Compton Community College District's management. Our responsibility is to express an opinion on Compton Community College 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 Compton Community College District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Compton Community College District's compliance with those requirements.

In our opinion, Compton Community College District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2012-11.



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**Internal Control Over Compliance**

Management of Compton Community College 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 Compton Community College District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Compton Community College District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as previously defined. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as item 2012-11. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Compton Community College District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Compton Community College District's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the Special Trustee, Board of Trustees, District Management, the California Community Colleges Chancellor's Office, and the District's Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 7, 2012

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

# REPORT ON STATE COMPLIANCE

Special Trustee and Board of Trustees
Compton Community College District
Compton, California

We have audited the basic financial statements of Compton Community College District (the District), as of and for the year ended June 30, 2012, and have issued our report thereon dated December 7, 2012.

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 of America and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. 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 opinions.

Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of Compton Community College District's management. In connection with the audit referred to above, we selected and tested transactions and records to determine the Compton Community College District's compliance with the State laws and regulations in accordance with Section 400 of the Chancellor's Office *California Community Colleges Contracted District Audit Manual (CDAM)* issued in May 2012 applicable to the following items:

| | |
|---|---|
| Section 421 | Salaries of Classroom Instructors: 50 Percent Law |
| Section 423 | Apportionment for Instructional Service Agreements/Contracts |
| Section 424 | State General Apportionment Funding System |
| Section 425 | Residency Determination for Credit Courses |
| Section 426 | Students Actively Enrolled |
| Section 427 | Concurrent Enrollment of K-12 Students in Community College Credit Courses |
| Section 431 | Gann Limit Calculation |
| Section 433 | California Work Opportunity and Responsibility to Kids (CalWORKS) |
| Section 435 | Open Enrollment |
| Section 437 | Student Fee – Instructional and Other Materials |
| Section 438 | Student Fees – Health Fees and Use of Health Fees |
| Section 474 | Extended Opportunity Programs and Services (EOPS) and Cooperative Agencies Resources for Education (CARE) |
| Section 475 | Disabled Student Programs and Services (DSPS) |
| Section 476 | Curriculum and Instruction |
| Section 479 | To Be Arranged (TBA) Hours |



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The District reports no attendance within class subject to the TBA Hours; therefore, the compliance tests within this section were not applicable.

Based on our audit, we found that for the items tested, the Compton Community College District complied with the State laws and regulations referred to above, except as described in the Schedule of State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs as items 2012-12 and 2012-13. Our audit does not provide a legal determination on Compton Community College District's compliance with the State laws and regulations referred to above.

Compton Community College District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Compton Community College District's responses and, accordingly, we express no opinion on the responses.

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

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 7, 2012

# *SCHEDULE OF FINDINGS AND QUESTIONED COSTS*

## COMPTON COMMUNITY COLLEGE DISTRICT

## SUMMARY OF AUDITORS' RESULTS
## FOR THE YEAR ENDED JUNE 30, 2012

**FINANCIAL STATEMENTS**

| | |
|---|---|
| Type of auditors' report issued: | Unqualified |
| Internal control over financial reporting: | |
| Material weaknesses identified? | No |
| Significant deficiencies identified? | Yes |
| Noncompliance material to financial statements noted? | No |

**FEDERAL AWARDS**

| | |
|---|---|
| Internal control over major programs: | |
| Material weaknesses identified? | No |
| Significant deficiencies identified? | Yes |
| Type of auditors' report issued on compliance for major programs: | Unqualified |
| Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? | Yes |
| Identification of major programs: | |

| CFDA Numbers | Name of Federal Program or Cluster |
|---|---|
| 93.596 and 93.575 | CCDF Cluster |
| 84.047A and 84.047M | TRIO Cluster |

| | |
|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs: | $ 300,000 |
| Auditee qualified as low-risk auditee? | No |

**STATE AWARDS**

| | |
|---|---|
| Internal control over State programs: | |
| Material weaknesses identified? | No |
| Significant deficiencies identified? | Yes |

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

### 2012-1 DISTRICT FINANCIAL CONDITION

**Criteria or Specific Requirement**

The District is required to maintain operational and budgetary financial stability both at the Fund level and the Entity-Wide level.

**Condition**

The District's Unrestricted General Fund has received reduced State Apportionment funding in each of the last three years. As a result, significant reductions in expenditures have occurred. With the reductions in spending, the District has been able to maintain the State recommended level for reserves for economic uncertainties. The District's Unrestricted General Fund has the ongoing responsibility for the majority of employee compensation and benefits costs, as well as the repayment of advance apportionment funding received. Principal and interest payments for the line of credit borrowing are approximately $1.3 million each year through 2029. Employee compensation and benefits are currently 78 percent of the total Unrestricted General Fund Expenditures.

Compounding the District's reduced funding is the current practice by the State of deferring cash payments for the revenue earned by several months – and moving significant amounts of the cash payment into the next fiscal year. At June 30, 2012, the District was owed over $9.1 million for apportionment earned during the 2011-2012 year. The ending cash balance in the Unrestricted General Fund was $1.4 million which is not sufficient to cover normal payroll processing without borrowing from other funds or issuing short-term debt.

Due to the deferral of State Apportionment, it has been necessary for the District to issue a mid-year Tax and Revenue Anticipation Note (TRAN), as well as issuing another TRAN in July 2012. The amount of the TRAN was increased from $1.5 million to $4.0 million.

On an entity-wide full-accrual basis, the District's unrestricted ending balance/deficit is approximately $(15.2) million. This is due primarily to the growing obligation for the postemployment health care benefits. As described in the Notes to the Financial Statements (Notes 10 and 11), the District is obligated to pay future healthcare benefit costs for retirees. The liability is over $15.7 million and is currently not funded, nor has the District begun to set aside reserve amounts for this obligation.

**Recommendation**

The District should begin the process of budgeting on a minimum three-year cycle. This will allow for a longer term analysis of the actual needs of the District and the resources – both revenue and cash – that will be available to fund the needs. As changes in the funding formula are instituted, the effect on the District's expenditures should be evaluated and, if necessary, plans for reductions instituted.

The long-term planning should include attention to obligations that will be coming due in the future such as the postemployment healthcare benefits.

**Management's Response and Corrective Action Plan**

The District agrees with the recommendation. The District has developed a five-year budget and fiscal management plan. Currently, the District's five-year budget plan is a working document which is continually updated as information becomes available to the District. The five-year budget plan has also evolved into a planning tool for the District to monitor ending fund balance, available reserve amounts, and compliance with 50% Law. This planning tool will assist the District in devolving a more accurate outlook of the financial position of the District and allow for better decision making.

**2012-2 CHILD DEVELOPMENT FUND**

**Criteria or Specific Requirement**

Expenditures related to the Child Development Fund and program are to be self sustaining with current program revenues and fees received for the services provided.

**Condition**

The expenditures within the Child Development Fund exceeded the revenues provided by Federal and State programs and fees charged for services by $90 thousand. This has been the result of continued reductions in the Federal and State program funding, while maintaining expenditures at previous levels. The current year ending balance of $38 thousand will not support the level of expenditures incurred during the 2011-2012 fiscal year, and the fund is in danger of showing a deficit if the expenditures are not reduced in the 2012-2013 year.

**Recommendation**

The District should review the 2012-2013 budget and determine costs which can be reduced, or revenue sources that can be enhanced, in order to ensure the fund is financially stable. It is recommended the budgetary review cycle mirror the Unrestricted General Fund as noted above and encompass a minimum three-year review. Due to the issues noted above within the Unrestricted General Fund, any pressure to provide additional support to the fund may negatively impact the stability of the Unrestricted General Fund.

**Management's Response and Corrective Action Plan**

The District agrees with this recommendation. The District has reviewed the 2012-2013 budget for the Child Development Fund to determine possible cost reductions. The Business Services Office is currently monitoring cash flow and costs charged to the Child Development Fund on a monthly basis and will continue to discuss potential cost reductions to ensure the Child Development Fund does not put any unnecessary financial impact on the Unrestricted General Fund.

## 2012-3 ACTIVITY CODING OF EXPENDITURES

**Criteria or Specific Requirement**

Districts are required by the California Community Colleges Chancellor's Office *Budget and Accounting Manual* (BAM) to properly classify expenditures by four digit activity codes as described in the *Taxonomy of Programs* (TOP) manual. All activities are typically classified as either instructional or administrative and support.

**Condition**

During the final review and reconciliation of the general ledger and activity reported in the Unrestricted General Fund, the District noted a significant amount of expenditures had not been properly coded to the activity codes for the corresponding TOPs activity classifications. The reconciliation of the activity codes was primarily the result of the preparation of the District's 50% Law calculation.

The specific coding of expenditures by activity code will provide a basis for whether expenditures are of an instructional or noninstructional nature, or whether the expenditure is related to auxiliary or community activities in determining the Current Expense of Education (CEE). Personnel have primarily focused on coding expenditures related to Fund and Object, without reviewing the criteria for the activity classification. While the expenditures have been appropriately identified through the closing process, journal entries to move the activity to the proper coding have not been completed to ensure the actual general ledger agrees with year-end reporting.

**Recommendation**

The District should provide additional training to all managers and staff that provide the account code string required for expenditure posting to the general ledger to ensure that expenditures are properly classified at the time the expenditure takes place in order to eliminate the need for re-classification of amounts at year-end. Transactions related to all expenditures including employee compensation and benefits should be reviewed to ensure the appropriate activity code reflects the job descriptions and actual duties that are being performed.

**Management's Response and Corrective Action Plan**

The District agrees with the recommendation. During the preparation of the 50% Law calculation, the District determined that certain expenditures were not charged to the appropriate activity code within the District's general ledger. The District identified the expenditures in question and reported them correctly in the CCFS-311, but were not adjusted on the District's general ledger since they were identified after the close of the District's accounting records. Subsequently, the District developed procedures relating to the preparation of the 50% Law to ensure activity codes are analyzed as part of the District's year-end closing process. Additionally, the District will begin training sessions for all accounting staff on the *Budget and Accounting Manual* (BAM) to ensure all staff have the appropriate skills necessary to review, detect, and prevent material misstatement.

## 2012-4 YEAR-END CLOSING AND ACCOUNTING PROCESSES

**Criteria or Specific Requirement**

The California *Education Code*, the California Community Colleges Chancellor's Office *Budget and Accounting Manual*, and best business practices require an entity to maintain a sound financial system that supports financial reporting and budget monitoring.

**Condition**

As has been noted in prior years' audits, the District's internal controls have not been implemented to a sufficient degree to prevent and detect material misstatements from occurring during the year.

The District's accounting staff has undergone significant changes in personnel over the past several years. The Chief Business Officer position was filled as of April 30, 2012, which provided for a more accurate closing process; however, reconciliations of activity throughout the year have continued to require significant review and analysis which is ongoing.

**Recommendation**

Consistent and adequately trained staff within all areas of the District Business Office must remain a high priority. The Chief Business Officer must continue to evaluate the strengths of internal control processes and procedures. Additionally, properly trained support staff which are necessary to ensure accurate reporting during the year must be included in the evaluation process.

**Management's Response and Corrective Action Plan**

The District agrees with the recommendation. In addition to the hiring of the Chief Business Officer (CBO) on August 28, 2012, the District hired and filled the Director of Accounting position with an individual who has community college experience and is very knowledgeable in internal controls, accounting processes, and year-end close. On November 1, 2012, the budget analyst position was also filled. These three positions are key to the operations of the Business Services Office. To ensure accuracy, the District implemented a procedure where all journal entries are now required to be reviewed at a minimum by the CBO and/or the Director of Accounting.

The Business Services Office staffing has been and will continue to be evaluated by the CBO in order to provide effective training. The organization of the Business Services Office has been updated to incorporate effective internal controls which will continue to be updated as needed. In addition, in order to reduce and eliminate significant adjustments recorded after the end of the fiscal year, the accounting department will implement a strategy focused on the following items:

a) Monthly reconciliation of all asset and liability accounts. The reconciliation will be prepared by the accounting staff and will be reviewed and approved by the Director of Accounting. Each account balance will be validated and supported by a sub ledger.
b) Monthly analysis of budget, revenue, and expenditure accounts. The new budget analyst will monitor the budget in order to ensure that expenditures do not exceed revenues. Revenue and expenditure will be analyzed to identify significant variances and to ensure that all cash inflows and outflows have been recorded properly. For example, the State apportionment revenue account will be reconciled on a monthly basis against the State apportionment report in order to ensure that all programs have received all revenues reported.
c) Reconciling general ledger accounts on a consistent basis should eliminate the need for material adjustments at the end of the fiscal year. In order to ensure that this is completed, the accounting department will meet on a bi-weekly basis to discuss potential issues and to provide updates on the monthly tasks. These meetings will also serve as training sessions in order to ensure that all staff is ready to complete their tasks.

## 2012-5 MANAGEMENT OVERSIGHT AND MONITORING

**Criteria or Specific Requirement**

The California *Education Code*, the California Community Colleges Chancellor's Office *Budget and Accounting Manual*, and best business practices require an entity to maintain a sound financial system that supports financial reporting and budget monitoring.

**Condition**

During the past six years, the District Business Office leadership has been under seven different Chief Business Officers and three different Special Trustees. The turnover has exacerbated the conditions noted above related to the accounting and closing process and has frustrated attempts at providing training of Business Office staff.

**Recommendation**

The training of staff should be a primary objective of the individual placed in the CBO position with sound internal control policies and practices a key component of the training, as well as general accounting theory training. An assessment of the accounting skills of the Business Office personnel should be conducted by the Chief Business Officer to ensure individuals have been assigned the proper tasks based upon their skill levels.

**Management's Response and Corrective Action Plan**

The District agrees with this recommendation. As of April 30, 2012, the District has filled the CBO position; on August 28, 2012, the District hired and filled the Director of Accounting position with an individual who has community college experience and very knowledge in controls, accounting processes, and year-end close; and on November 1, 2012, the budget analyst position was also filled.

The Business Services Office has developed a plan to evaluate staff in order to implement effective training. All staff members will be required to attend a specific number of training hours and a database has been created in order to track and monitor training to ensure all staff are adhering to these standards. Recently staff has attended year-end closing trainings, general ledger training, payroll training and, in the near future, Datatel, BAM, and budget monitoring trainings.

## 2012-6 FINANCIAL REPORTING SYSTEM RECONCILIATIONS

**Criteria or Specific Requirement**

The California *Education Code*, the California Community Colleges Chancellor's Office *Budget and Accounting Manual*, and best business practices require an entity to maintain a sound financial system that supports financial reporting and budget monitoring.

**Condition**

As noted in the prior years' audits, the District is utilizing two separate systems for monitoring accounting transactions - the PeopleSoft System supported by the Los Angeles County Office of Education and the locally supported DataTel System. DataTel is primarily used for student records and student service transactions such as enrollment, with PeopleSoft being the official books of record for budget monitoring, daily transactional analysis, and audit purposes. With the addition of the CBO in April 2012, we noted that the reconciliations for year end were completed; however, the two systems are not properly reconciled on a regular basis during the year.

**Recommendation**

The process to reconcile these two systems on a monthly basis must be documented with a written procedure manual and staff appropriately trained on the proper reconciliation methodology. Training for specific staff within the Business Office to provide for the reconciliations should be provided by the CBO to ensure more than one individual has the ability to provide for the reconciliation of activity. Supervisory review and approval of all reconciling journal entries should be included with this process. These reconciliations should be maintained to document that all transactions have been appropriately recorded throughout the year.

**Management's Response and Corrective Action Plan**

The District agrees with this recommendation. Due to the fact that PeopleSoft is the official books of record, Datatel will be reconciled to the balances reported in PeopleSoft. In order to accomplish this goal, it is imperative to complete a trial balance analysis and all balance sheet account reconciliations on a monthly basis. By having sub ledgers to support the balances reported on PeopleSoft, we will be able to identify the specific transactions or activity that has not been recorded in Datatel. The first step will be to understand and justify the beginning balance for all the balance sheet accounts. After this is done, we will review the activity recorded on both systems on a monthly basis. This review will include analysis and reconciliation of budget, revenue, and expenditure transactions. A reconciliation will be prepared for each fund on a monthly basis. All journal entries prepared as a result of the reconciliation will be reviewed and approved by the Director of Accounting. All timing related issues will not be solved with journal entries in order to avoid duplications. The timing issues will be reported in the reconciliation as in transit and will be a reconciling item. The Director of Accounting will ensure that the items do not move forward for several months. After the conclusion of the audit for fiscal year 2012, balance sheet items will be also reconciled and posted to agree to PeopleSoft System audited balances to ensure accurate account balances are posted to Datatel.

## 2012-7 ANALYSIS OF ACCOUNT BALANCES AND JOURNAL ENTRIES

**Criteria or Specific Requirement**

Best accounting practices require a regular review and reconciliation of all account balances with correcting journal entries reviewed and approved by the Chief Business Officer.

**Condition**

Balances in asset and liability accounts have been rolled forward from prior year without benefit of a reconciliation to ensure the amounts are still valid. Reconciliations of the Accounts Receivable and Payable balances was started for the 2011-2012 year-end closing; however, we noted balances in several of these accounts have been carried forward for the past several years. We also noted credit balances remaining in asset accounts and debit balances are included in the liability accounts. In some instances, these may offset each other, but have not been reconciled. Journal entries to support correcting and/or reconciling entries have not been consistently reviewed during the year to ensure they are appropriate and accurate.

**Recommendation**

A thorough review and reconciliation of all asset and liability account balances in all funds should be performed immediately. Adjustments that are necessary to properly record the activity should be presented to the Chief Business Officer for review prior to posting.

**Management's Response and Corrective Action Plan**

The District agrees with this recommendation. As part of the year-end closing process, account balances such as accounts payable, accounts receivable, and due from/to have been reviewed and a more in-depth analysis will continue through fiscal year 2013. In addition, at the end of each month, the District will analyze each asset and liability account and reconcile against a sub ledger.

## 2012-8 DISTRICT CASH ACCOUNTS

**Criteria or Specific Requirement**

Best accounting practices require a regular review and reconciliation of all cash accounts maintained by the District.

**Condition**

The District maintains various cash accounts to collect and remit funds to the County Treasury. These accounts have not been consistently monitored and reconciled, and transmittals of the cash to the County Treasury have not been processed consistently during the year. As these collections are recorded only in the cash accounts, revenues are not recognized until the County Treasury has received the deposit. We also noted the reconciliation process does not identify individual revenue accounts to post to which results in student fees not being properly accounted for during the year by fee type.

**Recommendation**

The process to reconcile the cash accounts on at least a monthly basis – and more frequently when large balances have been received – and transmit to the County Treasury must be documented and included in a written procedure manual. The transmittals to the County Treasury must include the detail of the individual revenue accounts to be credited, and the supporting documentation must be maintained for review and audit purposes.

**Management's Response and Corrective Action Plan**

The District agrees with the recommendation with the exception of transmittals of the cash to the County Treasury have not been processed consistently during the year. During fiscal year 2012, the accounting department began the process of submitting transmittals to the County Treasury as least every two weeks to ensure revenues are being posted in the general ledger in a timely manner. The District now maintains two clearing accounts of which one is maintained strictly for enrollment fees. During fiscal year 2013, the accounting department will implement a strategy focused on the following items:

a) Monthly reconciliation of all bank accounts. The reconciliation will be prepared by the accounting staff and will be reviewed and approved by the Director of Accounting. Each bank account balance will be reviewed and supported by a reconciliation of the account.

b) Reconciling GL accounts on a consistent basis should eliminate the need for material adjustments at the end of the fiscal year. In order to ensure that this is completed, the accounting department will meet on a bi-weekly basis to discuss potential issues and to provide updates on the monthly tasks. These meetings will also serve as training sessions in order to ensure that all staff is ready to complete their tasks.

### 2012-9 GENERAL OBLIGATION BOND FUND ACCOUNTABILITY

**Criteria or Specific Requirement**

The District is required to maintain a separate fund for accountability purposes for the proceeds and expenditures of general obligation bond funds.

**Condition**

The District's Revenue Bond Construction Fund is utilized to provide cash flow to the State funded construction projects accounted for within the Capital Outlay Projects Fund. Some of these projects are funded jointly by both revenue sources, and some are 100 percent funded by the Bond or State. During the 2011-2012 fiscal year, the District claimed and/or received reimbursements totaling $845,385 for State funded construction project expenditures incurred during the 2009-2010 and 2010-2011 fiscal years. These expenditures had not been transferred out of the Revenue Bond Construction Fund to the Capital Outlay Project Fund. A reclassifying journal entry has been provided to the District to properly post this activity.

**Recommendation**

The expenditures for State funded projects should be specifically accounted for by project to track the amount that is due for reimbursement from the approved State projects. On a quarterly basis, the District should reconcile the construction project expenditures and prepare a journal entry to properly allocate all construction project expenditures to the proper account and fund.

**Management's Response and Corrective Action Plan**

The District agrees with this recommendation. The District took a resolution to the Special Trustee for approval of an interfund loan from the Bond Fund to the Capital Projects Fund. However, LACOE issued Bulletin #281 advising all districts based on the advice of the County Treasurer and Tax Collector, LACOE has taken the position that borrowing from general obligation funds is highly inadvisable and LACOE will not approve any journal entries that come forward from districts to borrow from their bond funds. As a result, the District has developed an alternative procedure to ensure bond and capital project expenditures are appropriately being recorded in the proper fund.

## 2012-10 PAYROLL CLEARANCE FUND AND RELATED BENEFITS LIABILITY

**Criteria or Specific Requirement**

Best accounting practices require the District maintain a system of review and reconciliation over all funds and activities of the District.

**Condition**

The District maintains a Payroll Clearance Fund to account for benefit and payroll deductions and the corresponding payment to the appropriate organization. This fund should consistently net to $0 as it is a clearing fund only and has no separate revenue or expenditure activity. The Payroll Clearance Fund has not been consistently reconciled on a timely basis. The District personnel have received training in prior years on the proper reconciliation and accounting for the fund; however, changes in personnel and responsibilities have again allowed the balances in this fund to accumulate and amounts may not have been appropriately applied.

**Recommendation**

The District must designate and train an employee in the proper reconciliation of the Payroll Clearance Fund. All balances owed to outside third parties, or balances collected for other purposes, should be identified and remitted to the proper agency in a timely manner. The Chief Business Officer should develop a reconciliation and review process that will assist staff in completing this task on a monthly basis.

**Management's Response and Corrective Action Plan**

The District agrees with this recommendation. The Business Services Office has been and will continue to be evaluated by the CBO in order to provide effective trainings. The organization of the Business Services Office has been updated to incorporate effective internal controls and will continue to be updated as needed. In addition, in order to reduce and eliminate significant adjustments recorded after the end of the fiscal year, the accounting department will implement a strategy focused on the following items:

a) Monthly reconciliation of all asset and liability accounts which includes the Payroll Clearing Fund. The reconciliation will be prepared by the accounting staff and will be reviewed and approved by the Director of Accounting. Each account balance will be validated and supported by a sub ledger.
b) Reconciling GL accounts on a consistent basis should eliminate the need for material adjustments at the end of the fiscal year. In order to ensure that this is completed, the accounting department will meet on a bi-weekly basis to discuss potential issues and to provide updates on the monthly tasks. These meetings will also include payroll specialist when the Payroll Clearing Fund is being discussed, and these meetings will also serve as training sessions in order to ensure that all staff is ready to complete their tasks.

# FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
# FOR THE YEAR ENDED JUNE 30, 2012

The following finding represents significant deficiencies and/or instances of noncompliance including questioned costs that are required to be reported by OMB Circular A-133.

## 2012-11 REPORTING

### Federal Program Affected

U.S. Department of Health and Human Services, Child Care and Development Block Grant (CFDA #s 93.596 and 93.575)

### Compliance Requirement

The District is required to report to the oversight agency on a quarterly basis the activity within the grants.

### Condition

*Significant Deficiency*: As noted in the prior year audit report, quarterly financial reports, including the final report for annual activity, were not supported by the financial records of the District.

### Questioned Costs

None.

### Context

All four quarterly reports for the 2011-2012 year were selected and tested for compliance. The final annual report detailing the activity for the year did not agree to the financial records of the District.

### Effect

By not properly reporting the expenditure activity of the Child Care and Development Block Grant to the awarding agency, future awards may be impacted. Additionally, while no questioned costs are noted, the accuracy of the information is vital to the agencies review of the program.

### Cause

Financial information that was reported within the general ledger was not reconciled to the quarterly reports or the final financial activity report.

### Recommendation

Each report prepared for submission to the awarding agency must go through a supervisory review to ensure that all costs associated with the program are included within the report. The supporting documentation for the report submitted should be maintained with all other accountability records for the program.

**Management's Response and Corrective Action Plan**

The District agrees with this recommendation. However, the District provided support for the difference which is clearly inconsequential to the financial statements or the Child Care and Development Program.

# STATE AWARDS FINDINGS AND QUESTIONED COSTS
# FOR THE YEAR ENDED JUNE 30, 2012

The following findings represent instances of noncompliance and/or questioned costs relating to State program laws and regulations.

## 2012-12 INSTRUCTIONAL SERVICE AGREEMENTS

### Criteria or Specific Requirement

*Education Code* Section 84752 allows for the offering of educational programs to a third party under an approved contract or agreement between the District and the third party. The California State Chancellor's Office has provided guidance and legal opinion as to the criteria that are required to be in the agreement and part of the instructional program.

### Condition

The District implemented the finding noted in the prior year audit report related to the Instructional Service Agreement with the Universal Beauty School instructional contract; however, it was noted that the final instructor agreements which are to be signed by the instructors were not signed until after the commencement of instruction.

### Questioned Costs

None.

### Context

Of the 12 instructional courses offered through the school, two of the agreements were signed in November 2011 when instruction actually started in September 2011.

### Effect

By not having the proper agreement signed and in place for each instructor prior to the start of instruction, the District is at risk of failing to meet the compliance requirements related to the Instructional Services Agreements.

### Cause

These two instances appear to be isolated as the District was in the process of completing all Instructional Services Agreements to comply with the prior year comment related to noncompliance.

### Recommendation

Continued monitoring of instructional contracts offered through the Instructional Services Agreement contracts is necessary to ensure compliance with the required State requirements for claiming FTES credit for courses provided through this arrangement.

**Management's Response and Corrective Action Plan**

The District obtained all contracts for instructors providing educational services to students attending the Compton Community College District when it was brought to the attention of the District during the audit of fiscal year 2011. Further, classes were already in session at that time. In addition, the District will no longer operate educational programs under Instructional Services Agreements during fiscal year 2013.

## 2012-13 CalWORKs AND STATE TANF REPORTING

**Criteria or Specific Requirement**

Districts are required to expend CalWORKs Program and State TANF funds to provide specialized student support services, curriculum development, or instruction to eligible CalWORKs students and report the related expenditures to the State Chancellor's office by August 31 of each year.

**Condition**

The required reporting was submitted timely to the State Chancellor's Office; however, immaterial discrepancies between the report submitted and the final general ledger accounting of program expenditures.

**Questioned Costs**

None.

**Context**

The discrepancy noted was an underreporting of expenditures of $401. Total reported expenditures were $409,071, and actual expenditures noted on the general ledger were $409,421.

**Effect**

The District has under reported the expenditures of the CalWORKs and State TANF programs.

**Cause**

The District continued to reconcile the general ledger accounts subsequent to the required filing timeline of the CalWORKs and State TANF program expenditures.

**Recommendation**

Reconciliation of program expenditures during the year will provide more accurate and timely information for the reporting requirement for these programs.

**Management's Response and Corrective Action Plan**

The District agrees with this recommendation. However, the District provided support for the difference which is clearly inconsequential to the financial statements or program. The difference resulted in additional program related adjustments that occurred after the report was submitted.

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2012

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's Schedule of Findings and Questioned Costs.

***Financial Statement Findings***

### 2011-1 YEAR-END CLOSING AND ACCOUNTING PROCESSES

**Criteria or Specific Requirement**

The California *Education Code*, the California Community Colleges Chancellor's Office *Budget and Accounting Manual*, and best business practices require an entity to maintain a sound financial system that supports financial reporting and budget monitoring.

**Condition**

*Material Weakness*: As has been noted in prior years' audits, the District's internal controls have not been implemented to a sufficient degree to prevent and detect material misstatements from occurring during the year and in the closing process. Significant adjustments to the District's accounting records were noted during the audit process that affected the following accounts:

- State Apportionment and related student enrollment fees were not properly accounted for and required a $524 thousand accrual for monies owed back to the State in the Unrestricted General Fund.
- Journal entries prepared as post-closing adjustments to the general ledger were misposted and, in some cases, double posted requiring a number of audit adjustments to properly reconcile assets, liabilities, revenue, and expenditures in all District funds.
- An accounts payable set up at year end to the Capital Outlay fund in the amount of $689 thousand had been paid prior to June 30, 2011, creating on over statement of expenditures.
- Expenses owed through the Bond Fund in the amount of $146 thousand were not accrued and required an audit adjustment.
- Deferred Revenue relating to nonresident student enrollment fees, parking, and other student fees was not properly accrued and required an audit adjustment.

The District's accounting staff has undergone significant changes in personnel over the past several years. During the closing process for the 2010-2011 year, the Chief Business Officer position was again vacant, and the District required assistance in the close from outside consultants. These consultants provided entries to the system, while at the same time, District staff were also preparing entries. As a result of the deficiencies noted, additional time was required to complete the audit and report to the State Chancellor's Office. The District's annual audit is due to the State Chancellor's Office on December 31 of each year.

**Recommendation**

Consistent and adequately trained staff within all areas of the District Business Office must be a high priority. The Chief Business Officer position was open during the year-end closing process, as well as several other key positions which would have aided in ensuring all amounts had been properly accounted for. The ability to fill these positions and train staff within the Business Office should be the highest priority of the District. The adjustments noted during the audit should be posted to the District's general ledger as soon as possible as the effect will be to reduce beginning balances and may impact the ability of the District to meet budgetary obligations. The District should implement procedures and controls to ensure the reporting of financial activity is completed within State established timelines.

**Current Status**

Improved. See current year finding 2012-4.

**2011-2 MANAGEMENT OVERSIGHT AND MONITORING**

**Criteria or Specific Requirement**

The California *Education Code*, the California Community Colleges Chancellor's Office *Budget and Accounting Manual*, and best business practices require an entity to maintain a sound financial system that supports financial reporting and budget monitoring.

**Condition**

*Material Weakness*: During the past five years, the District Business Office leadership has been under six different Chief Business Officers and three different Special Trustees. The turnover has exacerbated the conditions noted above related to the accounting and closing process and has frustrated attempts at providing training of Business Office staff. This lack of continuity within the Business Office function has made it difficult for staff to properly address issues noted in past audits and other reviews, as well as to maintain a corporate knowledge of the history of transactions and resolutions.

**Recommendation**

The District needs to develop and implement a plan to attract and support adequately trained Business Managers and Supervisors within the Business Office. The training of staff should be a primary objective of the individuals placed in these roles with sound internal control policies and practices a key component of the training, as well as general accounting theory training. An assessment of the accounting skills of the Business Office personnel should be conducted by the Chief Business Officer to ensure individuals have been assigned the proper tasks based upon their skill levels.

**Current Status**

Improved. See current year finding 2012-5.

## 2011-3 FINANCIAL REPORTING (CCFS-311)

**Criteria or Specific Requirement**

The California Community Colleges State Chancellor's Office requires regular and timely reporting of financial activity through the quarterly and annual CCFS-311 reports.

**Condition**

*Material Weakness*: The annual reporting of the financial activity through the CCFS-311 report was not filed in a timely manner for the 2010-2011 fiscal year. The report contained material errors, was not complete, and did not contain key analysis of the various funds' ending balances. As this report is a key document for the State Chancellor's Office, the inaccuracies do not allow for the proper oversight and monitoring of District activities. Reporting of fund balances at June 30 on the CCFS-311 materially overstated the financial position of the District's Unrestricted General Fund and misstated the positions of all other funds of the District. A reconciliation of the fund balances is included within the audit report on page 50.

**Recommendation**

The District should contact the State Chancellor's Office to determine the protocol for properly filing an amended 2010-2011 annual CCFS-311 report. This information should be reviewed and approved by the management of Compton Community College District and also El Camino Community College District to ensure it is accurately prepared.

**Current Status**

Implemented.

## 2011-4 FINANCIAL REPORTING SYSTEM RECONCILIATIONS

**Criteria or Specific Requirement**

The California *Education Code*, the California Community Colleges Chancellor's Office *Budget and Accounting Manual*, and best business practices require an entity to maintain a sound financial system that supports financial reporting and budget monitoring.

**Condition**

*Material Weakness*: As noted in the prior years' audits, the District is utilizing two separate systems for monitoring accounting transactions - the PeopleSoft System supported by the Los Angeles County Office of Education and the locally supported DataTel System. DataTel is primarily used for student records and student service transactions such as enrollment; with PeopleSoft being the official books of record for budget monitoring, daily transactional analysis, and audit purposes. We noted the two systems are not properly reconciled on a regular basis during the year. The reconciliations selected for testing noted differences were not investigated and resolved, but the differences noted were adjusted to make the PeopleSoft system match the DataTel system. As some of these adjustments were due to timing, the entries at times were double posted or reversed the following month which created confusion within the accounts as to the accuracy.

**Recommendation**

The process to reconcile these two systems on a monthly basis must be documented with a written procedure manual and staff appropriately trained on the proper reconciliation methodology. Supervisory review and approval of all reconciling journal entries should be included with this process. These reconciliations should be completely maintained to document that all transactions have been appropriately recorded throughout the year.

**Current Status**

Improved. See current year finding 2012-6.

### 2011-5 CORRECTIVE ACTION PLAN

**Condition**

*Material Weakness*: The District is to provide a corrective action plan for deficiencies, both financial statement and compliance, noted in the prior year audit; however, the analysis was incomplete, and in several cases, did not address the recommendation noted. As a result, deficiencies noted in prior years have been carried forward and are again included in the current year audit, and the conditions continue to exist. This appears to be the direct result of the turnover of supervisory staff within the District Business Office as noted in previous comments.

**Recommendation**

The District must develop an accurate and complete implementation plan for the recommendations noted. Ongoing monitoring of the responses put forth by District personnel must be a high priority of the Chief Business Officer, the Chief Executive Officer, and the Special Trustee to ensure the conditions are corrected in a timely manner and the procedures followed by District personnel are in line with District policies, as well as Federal and State compliance requirements.

**Current Status**

Implemented.

**2011-6 ANALYSIS OF ACCOUNT BALANCES**

**Condition**

*Material Weakness*: Balances in asset and liability accounts have been rolled forward from prior year without benefit of a reconciliation to ensure the amounts are still valid. We noted this roll forward in the Due To/Due From accounts with some of the balance originating prior to the 2006 fiscal year. We also noted the Due To/Due From accounts have been misposted with credit balances in the asset accounts and debit balances in the liability accounts. This is also the case with Associated Student Body Funds which is rolling forward a $4,000 accounts payable balance and student loan receivable balances, and the Scholarship and Loan Fund which has not posted any activity since the 2008 fiscal year.

**Recommendation**

A thorough review and reconciliation of all asset and liability account balances in all funds should be performed immediately. Adjustments that are necessary to properly record the activity should be presented to the Chief Business Officer for review prior to posting. Part of the District's closing procedure each month should be to ensure that all balances owing between funds are properly recorded. Funds that have been established by the District should be reviewed to determine whether they are necessary or should be accounted for within other District funds.

**Current Status**

Improved. See current year finding 2012-7.

**2011-7 JOURNAL ENTRY PROCEDURES**

**Condition**

*Material Weakness*: The process for posting journal entries to the general ledger has continued to cause issues with account balances and classifications. Individual accounts analyzed during the audit process note journal entries being made reversed, duplicated, and posted backwards. This was exacerbated during the year-end closing process as journal entries were prepared and entered into the system with little oversight, review, and approval. Back up documentation for these journal entries was not clear to provide the reason for the entry to have been posted. As a result of the audit process, audit adjustments have been recommended and posted to properly state the account balances.

**Recommendation**

A clear written process to prepare, post, and review journal entries must be established. This process should include supervisory review of all entries with supporting documentation maintained which clearly notes the reason for the entry, whether it is an original entry or a correcting entry, and the offsetting accounts that will be impacted. This documentation should be maintained by the Business Manager and available for review and audit.

**Current Status**

Improved. See current year finding 2012-7.

**2011-8 INTERNAL AUDIT POSITION**

**Condition**

*Material Weakness*: The internal control process and procedures have been weakened due to the staffing turnover described elsewhere in this report. As noted in prior comments, there is not sufficient oversight, monitoring, and reconciliation of key accounts and process during the year to ensure material misstatements will not occur and go undetected by District staff. The District currently has an agreement to utilize the services of the internal auditor of the El Camino Community College District on a part time basis. The current process does not appear to effectively impact the internal control process at the Compton Community College District. There is not a formal risk assessment plan that has been completed with follow up of the progress or results of reviews and audits undertaken during the year.

**Recommendation**

In order to effectively maintain and monitor the overall internal control of the processes throughout the District, an Internal Audit position should be established. This position would report directly to the Special Trustee and work under the direction of the Chief Executive Officer. A formal risk assessment of the current process and procedures should be conducted, and regular assessments of controls and procedures should be undertaken. An important part of the responsibilities of this position should include the monitoring of the implementation of recommendations made in the various internal and external reports prepared for the District.

**Current Status**

The District is in the process of evaluating the current needs for the Internal Audit Function with the expansion of several key positions within the Business Office.

## 2011-9 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA)

**Criteria or Specific Requirement**

OMB Circular A-133 and 7 CFR 3052.31 requires the auditee (District) to prepare a complete and accurate Schedule of Expenditures of Federal Awards for the period covered by the financial statements.

**Condition**

*Material Weakness*: The SEFA prepared by District personnel was not complete and did not accurately reflect the activity within the Federal awards for the 2010-2011 fiscal year. Deficiencies noted and corrected within the audit included missing and/or inaccurate CFDA numbers, missing and/or inaccurate pass-through identifying name and number for subawards, inaccurate listing of Federal agencies providing the awards, and inaccurate disclosure of Federal expenditures recorded within the general ledger. We also noted one Federal award which was included with the State awards. The errors identified were corrected by District personnel as a result of audit procedures applied to the schedule.

**Recommendation**

The District must provide for proper supervision, oversight, and review of the closing process including the supporting schedules and information required to support the financial activity of the District. Inaccurate reporting of the Schedule of Expenditures of Federal Awards could jeopardize the District's ability to support the awards and related expenditures of Federal grants. Additional training of personnel responsible for the reporting of Federal awards and expenditures, including the final SEFA, must be provided to ensure the District is in compliance with reporting requirements.

**Current Status**

Implemented.

## 2011-10 PERKINS LOAN CASH ACCOUNT

**Condition**

*Material Weakness*: As a result of our close-out audit of the Perkins Loan Program, it was discovered that the contracted collection agency for the program had not remitted collections received to the District for over two years. The District had closed the bank account which received the direct deposit of the remittances and had assumed the agency would send a check each month for amounts received. As a direct result of the confirmation process for the Perkins Loan close out, the collection agency did acknowledge the payments had not occurred. There does not appear to have been a District staff that was responsible for the oversight and monitoring of these funds.

**Recommendation**

The District must work with the contracted collection agency to determine all amounts received from the loan program, amounts which should have been remitted, and any possible interest earnings that are due to the District. The close out of the Perkins loan program was identified in the prior year audit as a high priority to complete. This close-out audit will not be resumed or completed until the cash remittances have been resolved.

**Current Status**

Implemented.

The following comments have been determined to be *significant deficiencies* as defined: A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**2011-11 DISTRICT CASH ACCOUNTS**

**Condition**

The District maintains various cash accounts to collect and remit funds to the County Treasury. These accounts have not been consistently monitored and reconciled, and transmittals of the cash to the County Treasury have not been processed consistently during the year. As these collections are recorded only in the cash accounts, revenues are not recognized until the County Treasury has received the deposit. We also noted the reconciliation process does not identify individual revenue accounts to post to which results in student fees not being properly accounted for during the year by fee type.

**Recommendation**

The process to reconcile the cash accounts on at least a monthly basis – and more frequently when large balances have been received – and transmit to the County Treasury must be documented and included in a written procedure manual. The transmittals to the County Treasury must include the detail of the individual revenue accounts to be credited, and the supporting documentation must be maintained for review and audit purposes.

**Current Status**

Improved. See current year finding 2012-8.

**2011-12 ASSOCIATED STUDENT BODY (ASB) FUND**

**Condition**

The ASB is an association of students of the El Camino College Compton Center. Funds are received and expended in accordance with the governance procedures of the ASB. It was noted the accounts are not maintained on the DataTel or PeopleSoft accounting systems, which results in less oversight and monitoring of activities through the funds. We noted employees of the District have been paid through the ASB which may result in the misreporting of compensation to the Internal Revenue Service. An employee of the District should have all components of compensation included on the W-2 reporting at year end rather than on both a 1099 and a W-2.

**Recommendation**

The District Business Office should work with the ASB to establish the accounting for activity on the software systems of the District. This will allow established District procedures and controls to be utilized by the ASB and reduce the possibility that payments will not be made appropriately.

**Current Status**

Implemented.

**2011-13 DISTRICT CREDIT CARDS**

**Condition**

The District has established Administrative Regulation (AR) 6332, *Use of Credit Cards*. The regulation specifically prohibits the use of the credit card for personal purchase. It was noted the detail receipts for credit card purchases did included instances of groceries and small equipment purchases which were not authorized for District use. Additionally, it was noted receipts were not always maintained for purchases of gas with the credit cards. A detailed review of these purchases noted diesel gas being purchased when the District car or truck was not a diesel vehicle. Amounts of gas purchased in one day at one station were in excess of the gas that could be used to fill a District vehicle and other indicators of violations of the AR 6332.

Due to non-timely payment of the credit card bill, we noted over $1,400 had been paid in late fee charges.

**Recommendation**

Strict monitoring of the use of the District credit cards must be implemented. These cards should be in the control of one person and checked in and out on a daily basis, with receipts required to ensure expenses meet the criteria established in AR 6332.

**Current Status**

Implemented.

### 2011-14 OVERSIGHT AND MONITORING OF CONTRACTS

**Condition**

The general oversight and monitoring of contracts during the year was not maintained. We noted expenditures in excess of approved contract amounts. Written contracts may lack a clear Scope of Work section to allow the District to monitor whether or not the services have been performed as anticipated. There may be a lack of understanding as to the type of contract the District is entering into; we noted one consulting contract was actually for a maintenance agreement.

**Recommendation**

The District should perform an analysis of the contract process. This should include a detailed procedure desk guide for the staff preparing contracts which will state the type of contract, scope of services, maximum approved amount, and who the responsible department is for the oversight and monitoring that services are performed as anticipated.

**Current Status**

Improved. See current year finding 2012-5.

### 2011-15 DISBURSEMENTS/ACCOUNTS PAYABLE

**Condition**

The oversight and monitoring of invoices processed through accounts payable has not been consistent during the year. We noted two instances where duplicate payments were made for services rendered and/or goods received. Additionally, supporting documentation for six invoices pulled for audit could not be provided. The accounts payable function is one of the last departments to prevent and detect errors in the payments to vendors including coding to the general ledger accounts. We noted 11 instances where expenditures were charged to the wrong account codes.

The District has utilized "Meal Accountability" forms to document amounts paid for meals. From our sample selected for audit, 27 forms were not provided.

Purchases of equipment received in June 2011, including a washer and dryer, a 55 inch television, and a DVR player, were still unopened and not utilized by the department in April 2011. This indicates the equipment may not have been necessary at the time it was received and paid for.

**Recommendation**

Careful monitoring of the accounts payable function must include training and oversight of payments to vendors, account coding, and analysis. The Accounts Payable Department functions as a service provider to the various departments on campus, but should also serve as the monitoring function to ensure services are valid and established procedures for documentation are adhered to.

**Current Status**

Implemented.

**2011-16 PERSONNEL CONTRACTS**

**Condition**

Personnel files are to maintain a signed copy of contracts for the academic employees. These contracts are an essential part of monitoring the employees assignments, teaching load, and qualifications for the teaching assignment. We noted these contracts are not consistently updated for each academic year. From our sample selected for audit, six personnel contracts were not signed, either by the employee or District personnel.

**Recommendation**

A review of personnel files for the academic employees should be undertaken by the Human Resources Department and any files missing these signed contracts should be updated and reviewed with the employee to ensure the teaching assignment is correct.

**Current Status**

Implemented.

## 2011-17 GENERAL OBLIGATION BOND FUND ACCOUNTABILITY

**Condition**

The District's General Obligation Bond Project Fund is utilized to provide cash flow to the State funded construction projects, as well as the General Obligation Bond projects. Some of these projects are funded jointly by both revenue sources, and some are 100 percent funded by the Bond or State. This appears to be a cash flow issue as the State provides payment on a reimbursement basis. By accounting for the funds originally in the Bond fund, the District must transfer out the State funded portion of the project through a journal entry to the Capital Projects fund at year end. As noted previously, errors occur frequently in the processing of journal entries. We also noted that a client prepared post-closing adjusting entry incorrectly identified a reimbursement to the Bond fund as being a Capital Projects fund revenue source. However, the expenditures that the State reimbursed had not been transferred out of the Bond fund, and the journal entry was reversed. This entry was provided by the consultants assisting the District in the closing process, but the history of the transaction was not properly reviewed.

**Recommendation**

The expenditures for State funded projects should be charged to the Capital Projects fund when incurred. For cash flow purposes, the District may take a resolution to the Special Trustee for approval of a loan from the Bond fund to the Capital Projects fund. This loan would then be repaid when the reimbursement occurs. This will clearly identify the Bond related expenditures and the State funded project expenditures.

**Current Status**

Improved. See current year finding 2012-9.

## 2011-18 PAYROLL CLEARANCE FUND AND RELATED BENEFITS LIABILITY

**Condition**

As noted in the prior year finding (2010-12), the Payroll Clearance Fund has not been consistently reconciled on a complete and timely basis. The District personnel have received training on the proper reconciliation and accounting for the fund; however, changes in personnel and responsibilities have again allowed the balances in this fund to accumulate and balances may not have been appropriately paid.

**Recommendation**

The District must designate and train an employee in the proper reconciliation of the Payroll Clearance Fund. All balances owed to outside third parties, or balances collected for other purposes, should be identified and remitted to the proper agency in a timely manner. The Accounting Manager and Chief Business Officer should develop a reconciliation and review process that will assist staff in completing this task on a monthly basis.

**Current Status**

Improved. See current year finding 2012-10.

The following comment has been determined to be a *control deficiency* as defined: A deficiency in the design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

**2011-19 VACATION AND LEAVE BALANCES**

**Condition**

The District has not been effectively monitoring the accumulation and use of vacation time for employees. The District has adopted a policy of providing a maximum number of vacation hours that may accrue to the benefit of an employee and carried over from year to year. This amount is 352 hours. We have noted balances that have continued to grow over the past years without regard to this maximum approved accrual limit. We noted employees have accumulated balances and not taken the approved vacation leave time with total balances in excess of 1,600 hours. Administrators have accumulated and carried over balances with the maximum accrued in excess of 2,500 hours. This places a burden on the cash flow of the District when the person retires and is against the District's policy that staff should take the appropriate earned time off in the period it is earned.

**Recommendation**

While we have noted the District has encouraged staff to take time off during the year, and the current budget challenges have required certain staff to forgo their time off, the continued monitoring of these excess balances and the impact it has to employees and cash flows should be a high priority. Balances in excess of approved amounts should be reviewed for compliance with District policies.

**Current Status**

Implemented.

***Federal Awards Findings***

**2011-20 CHILD CARE AND DEVELOPMENT BLOCK GRANT (CFDA #s 93.596, 93.575, and 93.713)**

**Criteria or Specific Requirement**

Reporting: The District is required to report to the oversight agency on a quarterly basis the activity within the grants.

**Condition**

*Significant Deficiency*: Quarterly reports, including the final report for annual activity, were not supported by the financial records of the District.

**Questioned Costs**

None.

**Context**

All four quarterly reports for the 2010-2011 year were selected and tested for compliance. The final annual report detailing the activity for the year did not agree to the financial records of the District.

**Effect**

By not properly reporting the expenditure activity of the Child Care and Development Block Grant to the awarding agency, future awards may be impacted. Additionally, while no questioned costs are noted, the accuracy of the information may be suspect.

**Cause**

A formal review and approval of the annual report to the awarding agency did not occur. Financial information that was reported within the general ledger was not reconciled to the final report.

**Recommendation**

Each report prepared for submission to the awarding agency must go through a supervisory review to ensure that all costs associated with the program are included within the report. The supporting documentation for the report submitted should be maintained with all other accountability records for the program.

**Current Status**

Not implemented. See current year finding 2012-11.

**2011-21 CHILD CARE AND DEVELOPMENT BLOCK GRANT (CFDA #s 93.596, 93.575, and 93.713)**

**Criteria or Specific Requirement**

Unallowable Costs: OMB Circular A-21 2 CFR, Part 220, Section C.8.C.

**Condition**

*Significant Deficiency*: The prior year audit noted disallowed costs related to the Child Care and Development Block Grant. The reporting of this disallowed cost returned to the program agency was shown on the expenditure report as a current year expense.

**Questioned Costs**

None. The $12,000 reported repayment of the disallowed cost was in excess of the current year grant and was actually paid for with local funds.

**Context**

The District received and expended approximately $184 thousand in current year funding for the program. The $12,000 was included in the reported costs, but was not part of the current year expenditures.

**Effect**

The District is at risk of comingling allowed expenditures related to the program with disallowed costs by reporting the repayment in the current year expenditure report.

**Cause**

The general ledger report utilized to prepare the final expenditure report did not segregate the prior year disallowance. The oversight and review process for the reporting did not catch the error.

**Recommendation**

The accumulation of expenditures incurred in the course of providing services under the Child Care and Development Block Grant should include a careful review of reported costs. Expenditures that are not allowed as part of the program should not be included within the current year reports.

**Current Status**

Implemented.

***State Awards Findings***

**2011-22 50 PERCENT LAW CALCULATION**

**Criteria or Specific Requirement**

*Education Code* Section 84362 requires that a minimum of 50 percent of the District's Current Expense of Education (CEE) be expended during each fiscal year for "Salaries of Classroom Instructors".

**Condition**

As of June 30, 2011, the District is not in compliance with the requirements of the provisions of *Education Code* Section 84362. The District's calculation as presented in the CCFS-311 Annual Financial and Budget Report, and prior to adjustments proposed as accepted as the result of audit procedures applied to the financial statements, was 46.19 percent.

**Questioned Costs**

Based on the calculation, the District's shortfall is $1,098,356.

**Recommendation**

The District should work with the State Chancellor's Office and apply for a waiver of the requirements with the 50 Percent Law Calculation for the 2010-2011 fiscal year. The hardship that would be incurred with the shortfall would negatively impact the District and the current financial condition of the District.

**Current Status**

Implemented. The District is in compliance with the 50% Law Calculation.

**2011-23 EXTENDED OPPORTUNITY PROGRAMS AND SERVICES (EOPS) AND COOPERATIVE AGENCIES RESOURCES FOR EDUCATION (CARE)**

**Criteria or Specific Requirement**

As required by both *Education Code* Sections and the California Code of Regulations, the District is required to expend EOPS and CARE funds to provide services that are specifically designed to supplement the colleges' existing support programs and to help eligible students complete their educational goals.

**Condition**

To verify student eligibility for EOPS and CARE programs, the student files must contain a mutual responsibility contract to fulfill all EOPS and CARE eligibility criteria. This mutual responsibility contract was not consistently maintained for all students receiving EOPS and CARE services.

**Questioned Costs**

None. This is a documentation finding and does not impact funding.

**Context**

From our sample of ten student files selected for testing, two files did not maintain the required mutual responsibility contract.

**Recommendation**

The District's student services division should review all student files under the EOPS and CARE programs to ensure that documentation required by the program directives is maintained.

**Current Status**

Implemented.

# SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
# FOR THE YEAR ENDED JUNE 30, 2012

## 2011-24 COOPERATIVE AGENCIES RESOURCES FOR EDUCATION (CARE)

**Criteria or Specific Requirement**

As required by the California Code of Regulations, the District is required to provide for an advisory board to review the programs and expenditures through the CARE program.

**Condition**

The District utilizes a joint advisory committee for both EOPS and CARE. The guidelines for the CARE program require this advisory committee to meet two times each year. During 2010-2011, the CARE advisory committee met only one time during the annual EOPS advisory meeting.

**Questioned Costs**

None. This is an administrative requirement and does not impact funding.

**Recommendation**

The District's CARE advisory committee should schedule biannual meetings to review programs and services as required by the program guidance.

**Current Status**

Implemented.

## 2011-25 INSTRUCTIONAL SERVICE AGREEMENTS

**Criteria or Specific Requirement**

*Education Code* Section 84752 allows for the offering of educational programs to a third party under an approved contract or agreement between the District and the third party. The California State Chancellor's Office has provided guidance and legal opinion as to the criteria that are required to be in the agreement and part of the instructional program.

**Condition**

*Significant Deficiency*: The Compton Community College District has two Instructional Service Agreements currently in place providing education to students. One of the agreements, Universal Beauty School, was found by the District to not have all the required elements within the contract as required by the State Chancellor's Office, as well as not having the required contracts with the actual instructors of the courses offered. Upon noting the areas of noncompliance, the District removed all FTES generated through the Universal Beauty School Instructional Service Agreement from the 2010-2011 Annual Report of Attendance (CCFS-320). However, upon additional analysis, it was noted this course was also included within the 2009-2010 and 2008-2009 calculation of FTES, although the program had been administered in the same way.

**Questioned Costs**

For the 2010-2011 fiscal year, no questioned costs are noted as the FTES were not reported to the State Chancellor's Office for funding. However, a total of 197.30 FTES were reported under the Instructional Services Agreement in 2009-2010, and 265.51 FTES were reported under the Instructional Services Agreement in 2008-2009.

**Recommendation**

The District should work with the Universal Beauty School to update the contract and bring into compliance with the guidance and legal opinion provided by the State Chancellor's Office. All instructors providing educational services to the students are to have valid contracts with the Compton Community College District and are to be under the monitoring and control of the District's Dean of Instruction. The District should work with the State Chancellor's Office to determine the effect of the misreported FTES on the District's funding formula and the proper methodology for repayment of any funding received for the FTES.

**Current Status**

Improved. See current year finding 2012-12.

**2011-26 ENROLLMENT FEE REPORTING (CCFS-323)**

**Criteria or Specific Requirement**

*Education Code* Sections 76300, 76140 (k) and 84757
California Community Colleges *Budget and Accounting Manual*

**Condition**

*Material Weakness:* The Form CCFS-323 *Enrollment Fee Report* submitted by the District for the 2010-2011 fiscal year did not agree with the enrollment fee revenue reported in the PeopleSoft general ledger or the enrollment fees reported within Form CCFS-311. A reconciliation to support the CCFS-323 was not provided.

**Context**

The CCFS-311 and PeopleSoft general ledger both reported enrollment fees of $622,140, while the CCFS-323 report noted enrollment fees of $622,793. The actual enrollment fees charged were $1,030,464.

**Effect**

The District has improperly reported the enrollment fee revenue to the State Chancellor's Office which has an effect on the Apportionment Revenue funding.

**Recommendation**

The general ledger should be carefully reconciled to all reports provided to the State Chancellor's Office. The Enrollment Fee Report (CCFS-323) should be carefully reviewed by supervisory personnel prior to submission to the State Chancellor's Office to ensure its accuracy.

**Current Status**

Implemented.