

**SOLANO COMMUNITY
COLLEGE DISTRICT**

**GENERAL OBLIGATION BONDS
MEASURE G
FINANCIAL AUDIT
JUNE 30, 2011**

SOLANO COMMUNITY COLLEGE DISTRICT

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VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

Governing Board and,
Citizens Bond Oversight Committee
Solano Community College District
Fairfield, California

We have audited the accompanying financial statements of the Measure G fund of the Solano Community College District, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements present only the Measure G fund and do not purport to, and do not, present fairly the financial position and results of operations of the Solano Community College District in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 54 for the year ended June 30, 2011.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measure G fund of the Solano Community College District at June 30, 2011, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2012, on our consideration of the District Measure G fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Vaurinek, Trine, Day & Co LLP

Pleasanton, California
March 27, 2012

SOLANO COMMUNITY COLLEGE DISTRICT

MEASURE G FUND BALANCE SHEET JUNE 30, 2011

ASSETS

Cash and investments	\$ 24,207,291
Total Assets	<u>\$ 24,207,291</u>

LIABILITIES AND FUND EQUITY

LIABILITIES

Accounts payable	\$ 95,072
Total Liabilities	<u>95,072</u>

FUND BALANCES

Fund balances	
Restricted	<u>24,112,219</u>
Total Liabilities and Fund Balance	<u>\$ 24,207,291</u>

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

SOLANO COMMUNITY COLLEGE DISTRICT

**MEASURE G FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2011**

REVENUES	
Interest income	\$ 229,832
Total Revenues	<u>229,832</u>
EXPENDITURES	
Current Expenditures	
Salaries	42,816
Benefits	15,764
Services and operating expenditures	870,644
Capital outlay	2,094,194
Total Expenditures	<u>3,023,418</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(324,120)
FUND BALANCE, Beginning of Year	24,436,339
FUND BALANCE, End of Year	<u>\$ 24,112,219</u>

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

SOLANO COMMUNITY COLLEGE DISTRICT

MEASURE G FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Solano Community College District Measure G fund conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants. The Solano Community District Measure G fund accounts for financial transactions in accordance with the policies and procedures of the California Community Colleges Budget and Accounting Manual.

Financial Reporting Entity

The financial statements include only the Measure G fund of the Solano Community College District. This fund was established to account for the expenditures of general obligation bonds issued under the General Obligation Bonds Election of 2002. The authorized issuance amount of the bonds is \$124,500,000. Series A of the bonds was sold on May 29, 2003, for \$80,000,000 and Series B was sold August 22, 2006 for \$44,495,279. These financial statements are not intended to present fairly the financial position and results of operations of the Solano Community College District in compliance with accounting principles generally accepted in the United States of America.

Fund Accounting

The operations of the Measure G fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Resources are allocated to and accounted for in the fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

The financial statements of the Solano Community College District Measure G fund are accounted for under the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. For the District, available means expected to be received within 60 days of fiscal year-end. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered), except for unmatured interest on long-term debt, which is recognized when due.

Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not available for appropriation or amounts legally segregated for a specific future use. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period. No amounts were reserved or designated at June 30, 2011.

SOLANO COMMUNITY COLLEGE DISTRICT

MEASURE G FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Budgetary Data

The budgetary process is prescribed by provisions of the California Education Code and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1st of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

Encumbrances

The District utilizes an encumbrance accounting system under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. In other words, the District is committed or intends to purchase goods or services which have not yet been received. The encumbrance represents a “placeholder” that helps ensure that the budgeted funds for these commitments are not spent elsewhere. Encumbrances are liquidated when the commitments are paid and all outstanding encumbrances are liquidated at June 30 since they do not constitute expenditures or liabilities.

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Supplemental taxes for repayment of bond proceeds are collected by the County of Solano from all taxable property within the District and deposited in the Bond Interest and Redemption Fund of the District. 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 Solano bills and collects the taxes for the District. The District recognizes tax revenues when received.

Fund Balances - Governmental Funds

As of June 30, 2011, fund balances of the governmental funds are classified as follows:

Nonspendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the governing board.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board or chief business officer may assign amounts for specific purposes.

Unassigned – all other spendable amounts.

SOLANO COMMUNITY COLLEGE DISTRICT

MEASURE G FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Spending Order

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Changes in Accounting Principles

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

The *restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The *committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Amounts in the *assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. *Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required.

SOLANO COMMUNITY COLLEGE DISTRICT

MEASURE G FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

This Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements.

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The Measure G Fund of the District has implemented the provisions of this statement for the year ended June 30, 2011.

New Accounting Pronouncements

In November 2010, the GASB issued GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged.

NOTE #2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS

Investments Authorized Under Debt Agreements - The debt agreement limits investments to the Solano County Investment Pool. The limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
County Pooled Investment Funds	N/A	None	None

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 Section 41001). The fair value of the District's investment in the pool is reported in the accounting 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.

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 depositing substantially all of its funds in the County Treasury Pool. The fair value of deposits at the County Treasury at June 30, 2011, was \$24,282,334 and the weighted average maturity of the pool is less than one year.

SOLANO COMMUNITY COLLEGE DISTRICT

**MEASURE G FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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 Measure G fund only invests in County Pooled Investment Funds which are not required to be rated.

NOTE #3 – ACCOUNTS PAYABLE

As of June 30, 2011, the Measure G fund had the following accounts payable activity:

Capital outlay and equipment	\$ 72,046
Services and other	23,026
Total	<u>\$ 95,072</u>

NOTE #4 – FUND BALANCES

Fund balances are composed of the following elements:

Restricted	<u>\$ 24,112,219</u>
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NOTE #5 – COMMITMENTS AND CONTINGENCIES

Construction Commitments

As of June 30, 2011, the Measure G fund had no commitments with respect to unfinished capital projects:

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, 2011.

INDEPENDENT AUDITORS' REPORTS



**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***

Governing Board and
Measure G Citizens Bond Oversight Committee
Solano Community College District
Fairfield, California

We have audited the financial statements of the Measure G fund of the Solano Community College District as of and for the year ended June 30, 2011, and have issued our report thereon dated March 27, 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.

Internal Control Over Financial Reporting

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

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 above. 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 as item 2011-1. *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 Solano Community College District's Measure G Building Fund financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2011-1.

This report is intended solely for the information and use of the Governing Board, Measure G Citizens Bond Oversight Committee, management, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vaurinek, Trine, Day & Co LLP

Pleasanton, California
March 27, 2011

**SCHEDULE OF FINDINGS AND QUESTIONED
COSTS**

SOLANO COMMUNITY COLLEGE DISTRICT

MEASURE G FUND FINANCIAL STATEMENT FINDINGS JUNE 30, 2011

2011-1 Finding – Classification
Significant Deficiency

Criteria or Specific Requirement

One element of a District’s internal control over financial reporting is its ability to appropriately classify expenditures.

Condition

We noted that an invoice for \$6,678 was inappropriately recorded as a bond fund expenditure. The invoice was for software maintenance fees. The funding source on the printed copy of the invoice was notated as Fund 1100, General Fund, however, the invoice was inadvertently recorded as a Bond Fund, Fund 420 expenditure.

Questioned Costs

\$6,678.

Context

We reviewed 16 payments ranging from \$20,000 to \$360,000 totaling 32% of the bond fund expenditures and noted the above condition.

Effect

Bond fund expenditures were overstated by \$6,678 and the District’s internal control review processes were not operating effectively to internally identify and correct this error.

Cause

The expenditure was not recorded as notated on the invoice and the District’s internal control review procedures were not operating in a manner that enabled it to locate the error.

Recommendation

We recommend that the General Fund reimburse the Bond Fund for the \$6,678 and that the internal control review process be evaluated to determine why the review process did not operate effectively in this instance. Once a cause is identified, the District can determine if the process can be strengthened where necessary to provide reasonable assurance of catching these types of issues in the future.

SOLANO COMMUNITY COLLEGE DISTRICT

MEASURE G FUND FINANCIAL STATEMENT FINDINGS JUNE 30, 2011

District Response

The District agrees and has accrued the \$6,678 in the General Fund to reimbursement the Bond Fund. While controls over the disbursement process generally are strong, the District last May added the position of Accounting Manager whose partial responsibilities include the review and approval of bond financial transactions. Supplementing the internal control review process with this additional layer of fiscal oversight, we expect will strengthen the expenditure review process and bar this type of issue from recurring.

SOLANO COMMUNITY COLLEGE DISTRICT

MEASURE G FUND SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS JUNE 30, 2011

2010-1 Finding – Year End Closing Process *Material Weakness*

Criteria or Specific Requirement

One element of a District's internal control over financial reporting is its ability to prepare financial statements from its trial balance in accordance with Generally Accepted Accounting Standards. This includes development of a system of internal control procedures that allow for accurate, timely closing of accounting records.

Condition

We noted that several adjustments to several funds in the District trial balance were necessary after the start of the audit. Some of these adjustments were noted by District personnel, and some were a result of our inquiries during the completion of the audit.

Questioned Costs

Not applicable.

Context

Several funds other than the Measure G Building Fund required adjustments ranging from \$25,000 to \$795,000 after the year end close was completed.

In addition, many smaller differences that were considered immaterial in relation to the financial statements as a whole remain under investigation. Items that potentially affect the Measure G Building Fund that remain under investigation are as follows:

- Accounts payable – Banner #9510, prior year balances carried forward \$78,942.
- Accounts payable - QSS #95101, prior year balances carried forward \$20,715.

Effect

Reconciliations and adjustments to the year end balances occurring after the filing of the form CCFS-311, and after financial reports have been presented to management and the governing board decrease the relevance and usefulness of the data that was previously provided.

Cause

Year end closing procedures were not able to identify and correct errors in a timely manner.

Recommendation

We recognized that the District has made significant improvements in identifying and reconciling year end accruals during and after year end closing. We recommend that the District continue its effort in this process and review the items listed above so that all significant accruals and adjustments presented in the CCFS-311 reflect the current, accurate finances of the District.

SOLANO COMMUNITY COLLEGE DISTRICT

MEASURE G FUND SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS JUNE 30, 2011

District Response

The District agrees and will continue to strengthen the process for year-end closing. As part of that process written procedures will be developed and staff training will occur. This effort will be guided by the college's recently appointed Director of Fiscal Services with the involvement as well of the new Accounting Manager position. The procedures will not only address year-end close but also maintenance of records on a current basis to limit issues that may arise at year end.

Status

Implemented.