

**SOLANO COMMUNITY
COLLEGE DISTRICT**

**GENERAL OBLIGATION BONDS
MEASURE Q
FINANCIAL AUDIT
JUNE 30, 2013**

SOLANO COMMUNITY COLLEGE DISTRICT

MEASURE Q FUND TABLE OF CONTENTS JUNE 30, 2013

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

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Solano Community College District's (the District), Measure Q Building Fund General Obligation Bonds, and the related notes to the financial statements, as of and for the year ended June 30, 2013, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of financial statements, whether due to error or fraud. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measure Q Building Fund General Obligation Bonds of the Solano Community College District at June 30, 2013, and the changes in financial position for the period then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Measure Q Building Fund specific to General Obligation Bonds, and are not intended to present fairly the financial position and the changes in financial position of Solano Community College District in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2014, on our consideration of the District Measure Q Building Fund General Obligation Bond'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* in considering the District's Building Fund, Measure Q internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co LLP

Pleasanton, California
March 3, 2014

SOLANO COMMUNITY COLLEGE DISTRICT

**MEASURE Q FUND
BALANCE SHEET
JUNE 30, 2013**

ASSETS	
Cash and cash equivalents	<u>\$ 118,876,647</u>
LIABILITIES AND FUND EQUITY	
LIABILITIES	
Due to other funds	\$ 242,760
FUND BALANCES	
Fund balances	
Restricted	<u>118,633,887</u>
Total Liabilities and Fund Balance	<u>\$ 118,876,647</u>

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

SOLANO COMMUNITY COLLEGE DISTRICT

**MEASURE Q FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2013**

REVENUES		
	Total Revenues	\$ -
EXPENDITURES		
	Current Expenditures	
	Services and operating expenditures	1,031,380
	Total Expenditures	<u>1,031,380</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)		<u>(1,031,380)</u>
OTHER FINANCING SOURCES (USES)		
	Par value of bond	119,996,899
	Bond premium	663,749
	Proceeds from the sale of bonds	<u>120,660,648</u>
	Debt service requirements	(242,760)
	Issuance costs	<u>(420,989)</u>
	Available for projects	119,996,899
	Transfer out	<u>(331,632)</u>
	Total Other Financing Sources and Uses	<u>119,665,267</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES		118,633,887
FUND BALANCE, Beginning of Year		-
FUND BALANCE, End of Year		<u>\$ 118,633,887</u>

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

SOLANO COMMUNITY COLLEGE DISTRICT

MEASURE Q FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Solano Community College District Measure Q 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 College District Measure Q 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 Q fund of the Solano Community College District. This fund was established to account for the expenditures of proceeds from general obligation bonds issued under the General Obligation Bonds Election of 2012. The authorized issuance amount of the bonds is \$348,000,000. Series A of the bonds was sold on June 4, 2013, for \$89,996,899 and Series B was sold June 4, 2013 for \$30,000,000. 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 Q 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 Q 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.

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.

SOLANO COMMUNITY COLLEGE DISTRICT

MEASURE Q FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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, 2013, 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.

Spending Order

When an expenditure is incurred for purposes for which both restricted and unrestricted funds are available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned or unassigned funds 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.

SOLANO COMMUNITY COLLEGE DISTRICT

MEASURE Q FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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.

NOTE #2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS

Policies and Practices

The Measure Q fund 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.

Summary of Cash and Investments

Cash and investments as of June 30, 2013, are classified in the accompanying financial statements as follows:

Cash	\$ 1,101,000
Investments - County Cash Pool	<u>117,775,647</u>
Total	<u><u>\$ 118,876,647</u></u>

SOLANO COMMUNITY COLLEGE DISTRICT

**MEASURE Q FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

Investments Authorized Under Debt Agreements

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

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, 2013, was \$117,801,275 and the weighted average maturity of the pool is 15 months.

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.

SOLANO COMMUNITY COLLEGE DISTRICT

**MEASURE Q FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE #3 – FUND BALANCES

Fund balances are composed of the following elements:

Restricted	<u>\$ 118,633,887</u>
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NOTE #4 – INTERFUND TRANSACTIONS

The Measure Q Capital Projects fund owes the Bond Interest and Redemption fund \$242,760 to set aside required debt service reserves paid out of the Bond premium. The bonds were sold at a premium, and in compliance with Ed Code, Underwriter’s Fees were offset to such premiums. Any excess premium over the Underwriter’s Fees is required to be remitted to the Debt Service Fund and cannot be used for projects. Additionally, all issuance costs, including legal, financial advisors, bond rating, etc were paid out of proceeds.

A transfer out in the amount of \$331,632 was to reimburse other funds for the cost of preparation of the facilities master plan paid prior to receipt of the bond proceeds.

NOTE #5 – COMMITMENTS AND CONTINGENCIES

Construction Commitments

As of June 30, 2013, the Measure Q fund did not have any commitments for signed agreements related 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, 2013.

INDEPENDENT AUDITORS' REPORTS



VAVRINEK, TRINE, DAY
& COMPANY, 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***

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

We have audited, in accordance with the 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, the accompanying financial statements of the Solano Community College District (the District) Measure Q Building Fund General Obligation Bonds, and the related notes of the financial statements, as of and for the year ended June 30, 2013, and have issued our report thereon dated March 3, 2014.

As discussed in Note 1, the financial statements present only the Building Fund specific to Measure Q General Obligation Bonds, and are not intended to present fairly the financial position and changes in financial position of Solano Community College District in conformity with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Solano Community College District Measure Q Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Solano Community College District Measure Q Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of Solano Community College District Measure Q Fund's internal control.

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 Fund's financial statements will not be prevented, or detected and corrected on a timely basis. *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.

Our consideration of internal control 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2013-1 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Solano Community College District Measure Q Fund's financial statements are free from 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.

Solano Community College District Measure Q Fund's Response to Finding

Solano Community College District Measure Q Fund's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Solano Community College District Measure Q Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Solano Community College District Measure Q Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the SOLANO COMMUNITY COLLEGE DISTRICTS Solano Community College District Measure Q Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vaurinek, Ture, Day & Co LLP

Pleasanton, California
March 3, 2014

**SCHEDULE OF FINDINGS AND QUESTIONED
COSTS**

SOLANO COMMUNITY COLLEGE DISTRICT

MEASURE Q FUND FINANCIAL STATEMENT FINDINGS JUNE 30, 2013

The following findings represent significant deficiencies, material weaknesses, and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
20000	Inventory of Equipment
30000	Internal Control
60000	Miscellaneous

2013-1 Code 60000 – Due to Other Funds

Criteria or Specific Requirements

The official statement for the bond issue indicates that \$242,760 of the proceeds received from the premium associated with the Measure Q bond sale be set aside in a debt service fund for future repayments of the debt.

Condition

The \$242,760 proceeds intended for future debt service were recorded in the capital outlay fund.

Questioned costs

\$242,760.

Context

The required debt service reserve for Measure Q Series A is \$242,760 as noted in the bond official statements.

Effect

Accounting for the amount of the required debt service reserve in the capital outlay fund result in the appearance that the capital outlay fund has \$242,760 more funds available to spend on construction projects than it should.

Cause

All cash received from the bond sale was recorded in the capital outlay fund when a portion of the amount paid from the premium should be recorded in the debt service fund.

Recommendation

The District should transfer \$242,760 from the Measure Q capital outlay fund to the Measure Q debt service fund.

SOLANO COMMUNITY COLLEGE DISTRICT

**MEASURE Q FUND
FINANCIAL STATEMENT FINDINGS
JUNE 30, 2013**

Corrective Action Plan

Management agrees with the finding and will transfer funds to the Bond Interest/Redemption Fund as required.

SOLANO COMMUNITY COLLEGE DISTRICT

**MEASURE Q FUND
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2012**

None noted.