

SOLANO COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENTS

WITH SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED JUNE 30, 2008

AND

INDEPENDENT AUDITOR'S REPORT

SOLANO COMMUNITY COLLEGE DISTRICT

**FINANCIAL STATEMENTS
WITH SUPPLEMENTAL INFORMATION**

For the Year Ended June 30, 2008

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SOLANO COMMUNITY COLLEGE DISTRICT

**FINANCIAL STATEMENTS
WITH SUPPLEMENTAL INFORMATION**

For the Year Ended June 30, 2008

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INDEPENDENT AUDITOR'S REPORT

Audit Committee
Solano Community College District
Fairfield, California

We have audited the accompanying financial statements of the business-type activities of Solano Community College District as of and for the year ended June 30, 2008, which comprise the District's basic financial statements 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 basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements listed in the aforementioned table of contents present fairly, in all material respects, the financial position of Solano Community College District as of June 30, 2008, and the results of its operations, changes in its net assets, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2009 on our consideration of the District's internal control over financial reporting and 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis (MD&A) on pages 3 through 10 is not a required part of the financial statements, but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the reported supplementary information. However, we did not audit the information and express no opinion on it.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Our audit was conducted for the purpose of forming an opinion on the District's basic financial statements. The accompanying supplementary information listed in the Table of Contents, including the Schedule of Federal Financial Awards, which is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Perry - Smith LLP

Sacramento, California
May 15, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending June 30, 2008

The discussion and analysis of Solano Community College District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the District's financial performance as a whole. To provide a complete understanding of the District's financial standing, this analysis should be read in conjunction with the entire Independent Auditor's Report, particularly the District's financial statements beginning on page 11, and the notes to the basic financial statements beginning on page 15.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in Statement No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments." Statement No. 35 was subsequently released, defining financial reporting for public colleges and universities. The financial statements in this report have been prepared in accordance with these new standards.

The California Community College Chancellor's Office, through its Fiscal and Accountability Standards Committee, has recommended the Business Type Activity (BTA) model for financial reporting. Solano Community College District has adopted the BTA reporting model for these financial statements.

To provide a more meaningful analysis of the District's financial information, certain comparative information is required to be presented in the MD&A. The reader will find comparative information relative to Full Time Equivalent Student enrollment (FTES) as well as key highlights of the audited financial statements.

As required, the annual report consists of three basic financial statements that provide information on the District as a whole:

- Statement of Net Assets
- Statement of Revenue, Expenses and Change in Net Assets
- Statement of Cash Flows

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
Fiscal Year Ending June 30, 2008

Financial Highlights

- The 2007-08 State Budget Act provided a system-wide funding increase of \$318 million that assumed a new funding formula plus an additional \$21 million for a variety of one-time purposes. The subsequent passage of SB 361 implemented the new funding formula for community colleges, replacing the program based funding (PBF) formulas that had been used for the past twenty years.

The new SB 361 formula provided that no district would be funded less than that which was being distributed using the PBF formula.

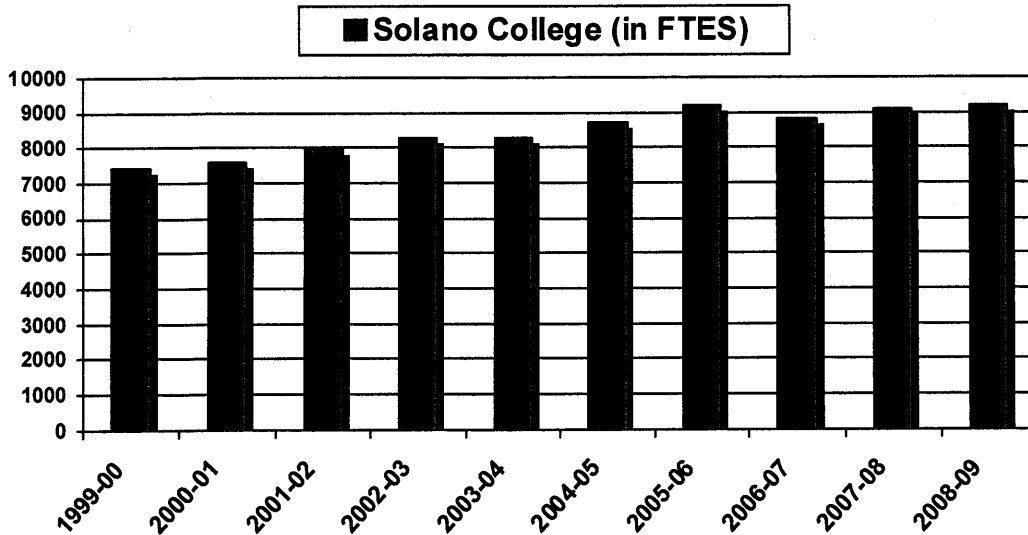
Financial/Enrollment Highlights, FYE June 30, 2008 Compared to FYE June 30, 2007

- Total operating revenues were \$17.2 million, an increase of 4.5% or \$735,085. This increase is largely due to an increase in new grants and contracts awarded to the District.
- Total non-operating and capital revenues were \$56.8 million, an increase of 4.8% or \$2,618,065. This increase is the net effect of an increase in taxes collected to pay the debt service requirement on the Revenue Bonds; an increase in State apportionment funding; and an offset of other non-operating expenses.
- Total operating expenses were \$68.2 million, an increase of 15.9% or \$9,356,528. Significant cost increases are reflected in the salaries, benefits, supplies and materials.

Fiscal Year 2007-08 final reported enrollment was 9,100 Full-Time Equivalent Students (FTES). A conservative, 0.93% growth target or 85 FTES is projected for Fiscal Year 2008-09. Obtaining this growth will restore the District back to the base level established in 2005-06.

| YEAR | ATTENDANCE (FTES) | % GROWTH |
|----------------------|-------------------|----------|
| 1999-2000 | 7,423 | 2.1% |
| 2000-2001 | 7,582 | 2.1% |
| 2001-2002 | 7,949 | 4.8% |
| 2002-2003 | 8,282 | 4.2% |
| 2003-2004 | 8,271 | (0.1%) |
| 2004-2005 | 8,681 | 5.0% |
| 2005-2006 | 9,182 | 5.8% |
| 2006-2007 | 8,810 | (4.1%) |
| 2007-2008 | 9,100 | 3.2% |
| 2008-09 Projected | 9,185 | 0.9% |

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
Fiscal Year Ending June 30, 2008



Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. Net assets – the difference between assets and liabilities – are one way to measure the financial health of the District.

| | 2008 | 2007 | Increase (Decrease) | Percent Change |
|---|-----------------------|-----------------------|------------------------|-------------------|
| Current Assets | | | | |
| Cash and cash equivalents | \$ 10,123,544 | \$ 11,681,589 | \$ (1,558,045) | (13.3%) |
| Receivables | 5,570,616 | 4,024,655 | 1,545,961 | 38.4% |
| Inventory, prepaid expenses and other | 937,422 | 1,075,242 | (137,820) | (12.8%) |
| Total current assets | 16,631,582 | 16,781,486 | (149,904) | (0.9%) |
| Non-current assets | | | | |
| Net capital assets and restricted funding | 167,692,144 | 167,613,757 | 78,387 | 0.0% |
| Total assets | \$ 184,323,726 | \$ 184,395,243 | \$ (71,517) | (0.0%) |

- Total current assets decreased by less than 1%. The decrease is primarily due to the completion of bond projects in the 2007/08 fiscal year, reflected in cash and cash equivalents.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
Fiscal Year Ending June 30, 2008

Statement of Net Assets (Continued)

- Included in capital assets are the net values of buildings, land and equipment. The capitalization threshold is \$5,000 or higher, based upon original acquisition cost.
- The unspent cash from the proceeds from the issuance of the Measure G Bond and the funds collected by the County Treasurer for the debt service payment for the bonds are included in non-current assets.

Liabilities - Condensed

| | 2008 | 2007 | Increase (Decrease) | Percent Change |
|---|-----------------------|-----------------------|------------------------|-------------------|
| Current Liabilities | | | | |
| Accounts payable and accrued liabilities | \$ 8,735,453 | \$ 8,004,297 | \$ 731,156 | 9.1% |
| Deferred revenues | 3,255,142 | 2,640,783 | 614,359 | 23.3% |
| Bonds and notes payable - current portion | 1,001,101 | 918,810 | 82,291 | 9.0% |
| Other long-term liabilities - current portion | 4,506,955 | 4,455,743 | 51,212 | 1.1% |
| Total current liabilities | 17,498,651 | 16,019,633 | 1,479,018 | 9.2% |
| Non-current liabilities | | | | |
| Long term liabilities | 134,834,023 | 134,208,889 | 625,134 | 0.5% |
| Total liabilities | \$ 152,332,674 | \$ 150,228,522 | \$ 2,104,152 | 1.4% |

- The accounts payable balance reflects greater liabilities at year-end in the general fund and the Revenue Bond Fund. The general fund is primarily due to prior period adjustments; one to adjust the payroll clearing accounts, and the other for the special audit of the FTES required by the Chancellor's Office.
- Long-term debt consists of compensated absences payable and the principal portion of financing capital projects. The amount due in 2008-09 is reported under current liabilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
Fiscal Year Ending June 30, 2008

Statement of Net Assets (Continued)

Net Assets – Condensed

| Net assets | 2008 | 2007 | Increase (Decrease) | Percent Change |
|--|-----------------------|-----------------------|------------------------|-------------------|
| Investment in capital assets , net of debt | \$ 37,621,631 | \$ 24,899,666 | \$ 12,721,965 | 51.1% |
| Restricted | 4,608,295 | 3,519,839 | 1,088,456 | 30.9% |
| Unrestricted | (10,238,874) | 5,747,216 | (15,986,090) | (278.2%) |
| Total Net Assets | <u>31,991,052</u> | <u>34,166,721</u> | <u>(2,175,669)</u> | <u>(6.4%)</u> |
| Total Net Assets and Liabilities | <u>\$ 184,323,726</u> | <u>\$ 184,395,243</u> | <u>\$ (71,517)</u> | <u>(0.0%)</u> |

- Net assets, previously reported as fund balance under the former reporting model, include the value of all capital assets (net of accumulated depreciation).
- The decrease in total net assets, reflects in part, the decrease in cash and cash equivalents and other short-term District assets along with an increase in liabilities due to the FTES special audit and prior year audit adjustment to record the accreted interest for the capital appreciation bonds.
- Restricted and/or reserved amounts include reserve for encumbrances, special reserves, capital projects reserves, stores, and prepaid items.
- Unrestricted net assets reflect the uncommitted balance of unrestricted funds in all funds. The decrease is due to the District's issuance of debt in prior years and the projects which are incomplete and not an asset as of June 30, 2008.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the operating results of the District, as well as the non-operating revenues and expenses. State general apportionment, while budgeted for operations, is considered non-operating revenues according to Generally Accepted Accounting Principles.

As reported in the Statement of Revenues, Expenses and Changes in Net Assets on page 12 of this report, the cost of all the District's governmental activities this year was \$68,241,755. The amount funded through local taxpayers by means of property taxes was \$11,051,913, up approximately \$840,000 from the previous year. Unrestricted State apportionment totaled \$32,575,523, an increase of over \$1.5 million, reflecting the 4.53% COLA.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Fiscal Year Ending June 30, 2008

Statement of Revenues, Expenses and Changes in Net Assets (Continued)

Tuition and fees show a decrease due to fees in 2006-07 were \$26 per unit for one semester and \$20 per unit for the others. The fees for 2007-08 were \$20 per unit for all semesters.

The District was awarded additional federal grants resulting in an increase of federal funding. State and local revenue increased by \$892,632 due to a transfer to the general fund from the bond fund for prior-year expenditures which the general fund paid for.

| <u>Revenue Source</u> | <u>2007-08</u> | <u>2006-07</u> | <u>% Change</u> |
|-------------------------|----------------|----------------|-----------------|
| Operating Revenue: | | | |
| Tuition and Fees | \$ 3,790,764 | \$ 4,393,071 | (13.7%) |
| Federal Grants | \$ 5,531,488 | \$ 4,956,395 | 11.6% |
| State and Local Grants | \$ 7,126,851 | \$ 6,234,219 | 14.3% |
| Auxiliary | \$ 753,853 | \$ 884,186 | (14.7%) |
| Non Operating Revenue: | | | |
| State Apportionment | \$ 32,575,523 | \$ 31,120,194 | 4.7% |
| State/Local Taxes/Other | \$ 23,547,375 | \$ 22,047,571 | 6.8% |
| Capital Revenue | \$ 729,624 | \$ 935,806 | (22.0%) |

Expenses for 2007-08 include depreciation of the District's plant and equipment, which is not reported on the interim financial statements. All step increases were funded and the health benefit package was maintained. The 15.9% increase in operating expenses primarily reflects the progress made on the bond projects in the 2007-08 fiscal year. Increases in utilities, insurance premiums and many fixed costs were fully funded and are expected to continue in future years. The increase in non-operating interest expense reflects the interest cost of the revenue bond.

The following table summarizes expenditures by expense category.

| <u>Expense category</u> | <u>2007-08</u> | <u>2006-07</u> | <u>% Change</u> |
|--------------------------|----------------|----------------|-----------------|
| Operating expenses: | | | |
| Salaries | \$ 33,090,262 | \$ 31,226,017 | 6.0% |
| Benefits | \$ 12,486,706 | \$ 11,225,612 | 11.2% |
| Supplies/Other Operating | \$ 18,451,056 | \$ 13,236,470 | 39.4% |
| Utilities | \$ 1,766,120 | \$ 1,417,477 | 24.6% |
| Depreciation | \$ 2,447,611 | \$ 1,779,651 | 37.5% |
| Non Operating Expenses | \$ 5,340,507 | \$ 2,946,389 | 81.3% |

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Fiscal Year Ending June 30, 2008

Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the fiscal year. This statement also helps users assess the District's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

| | <u>2007-08</u> | <u>2006-07</u> |
|--|----------------------|-----------------------|
| Cash (used in) provided by: | | |
| Operating activities | \$ (49,039,854) | \$ (35,624,338) |
| Non-capital financing activities | 52,664,263 | 47,509,737 |
| Capital and related financing activities | (27,923,327) | 3,907,743 |
| Investing activities | 3,995,906 | 4,868,569 |
| | <hr/> | <hr/> |
| Net (decrease) increase in cash | (20,303,012) | 20,661,711 |
| Cash – beginning of fiscal year | 105,395,122 | 84,733,411 |
| | <hr/> | <hr/> |
| Cash – end of fiscal year | <u>\$ 85,092,110</u> | <u>\$ 105,395,122</u> |

- Operating activities includes tuition and fees, grants, operating payments, and auxiliary enterprises.
- Non-capital financing activities include State apportionment and property taxes and represent the largest cash in-flow to the District.
- Construction projects and capital debt are reported in capital and related financing activities. The overall decrease in the cash balance is attributed to the increase in spending for operating activities as well as an increase in bond expenditures.

Factors That May Affect the Future

- The District is dependent on the State of California for a majority of its revenue. State law and regulation further specified the allowed uses of State revenue. The most important element of State funding is the Total General Apportionment calculation, which accounted for 91% of the District's 2007-08 primary "operating fund," the Unrestricted General Fund. Apportionment revenue is directly tied to reported enrollment and, since 1999-2000, the District's FTES has increased, with a very small decline in 2003-04 and more substantial declines in 2005-06 and 2006-07. The declines were a direct reflection of economic conditions that affected community colleges state-wide.
- During 2007-08 the FTES numbers were flat; however, the new Vallejo Center opened in the fall of 2007 and has continued to increase its enrollment each semester. Center status will be met in the near future. With the weakened economy, Solano College must find a way to grow enrollment in order to fully fund college operational needs, and other essential college services.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Fiscal Year Ending June 30, 2008

Factors That May Affect the Future (Continued)

- Unrestricted reserves were maintained at 5% from the 2006-07 fiscal year to the 2007-08 fiscal year as per District policy.
- Contract negotiations for the salary enhancements for the 2007-08 fiscal year were not settled for employees of the District. Negotiations are continuing for 2007-08 into the 2008-09 fiscal year.
- A special attendance audit, required by the Chancellor's Office, due to a "whistleblower's report" has resulted in a decrease of FTES reported incorrectly in prior years. The District is in the process of negotiating with the Chancellor's Office of the exact payments as a result of this audit.
- The District has a commitment to clean-up the site used in prior years by the Fire Science Training Program at the California Medical Facility-Vacaville. The cost for this clean-up will be a general fund expense.
- The continued availability of funds for future salary enhancements is directly tied to ongoing revenue derived from student enrollment and State-funded COLAs. The District struggles to provide competitive compensation packages to attract and retain qualified employees.

SOLANO COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET ASSETS

June 30, 2008

ASSETS

| | |
|---|--------------------|
| Current assets: | |
| Cash and cash equivalents (Note 2) | \$ 10,123,544 |
| Accounts receivable, net (Note 3) | 5,570,616 |
| Stores inventories | 756,824 |
| Prepaid expenses and other assets | <u>180,598</u> |
| Total current assets | <u>16,631,582</u> |
| Noncurrent assets: | |
| Restricted cash and cash equivalents (Note 2) | 74,968,566 |
| Capital assets, net (Note 4) | <u>92,723,578</u> |
| Total noncurrent assets | <u>167,692,144</u> |
| Total assets | <u>184,323,726</u> |

LIABILITIES

| | |
|--|--------------------|
| Current liabilities: | |
| Accounts payable | 5,027,204 |
| Apportionment payable (Note 13) | 1,808,627 |
| Accrued payroll | 1,899,622 |
| Deferred revenue (Note 5) | 3,255,142 |
| Amounts held in trust | 522,020 |
| Deferred bond premium (Note 6) | 479,081 |
| Compensated absences payable (Note 6) | 1,171,065 |
| Long-term debt-current portion (Note 6) | <u>3,335,890</u> |
| Total current liabilities | <u>17,498,651</u> |
| Noncurrent liabilities: | |
| Accreted interest on bonds (Note 6) | 3,481,489 |
| Long-term debt-noncurrent portion (Note 6) | 124,402,841 |
| Deferred bond premium (Note 6) | <u>6,949,693</u> |
| Total noncurrent liabilities | <u>134,834,023</u> |
| Total liabilities | <u>152,332,674</u> |

Commitments and contingent liabilities (Note 11)

NET ASSETS

| | |
|---|----------------------|
| Invested in capital assets, net of related debt | 37,621,631 |
| Restricted for: | |
| Capital projects | 2,014,971 |
| Other special purposes | 2,593,324 |
| Unrestricted | <u>(10,238,874)</u> |
| Total net assets | <u>\$ 31,991,052</u> |

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

SOLANO COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2008

| | |
|--|----------------------|
| Operating revenues: | |
| Tuition and fees | \$ 3,790,764 |
| Grants and contracts, noncapital: | |
| Federal | 5,531,488 |
| State | 5,476,916 |
| Local | 1,649,935 |
| Auxiliary enterprise sales and charges | <u>753,853</u> |
| Total operating revenues | <u>17,202,956</u> |
| Operating expenses: | |
| Salaries | 33,090,262 |
| Benefits (Notes 8 and 9) | 12,486,706 |
| Supplies, materials and other operating expenses and services | 18,451,056 |
| Utilities | 1,766,120 |
| Depreciation (Note 4) | <u>2,447,611</u> |
| Total operating expenses | <u>68,241,755</u> |
| Loss from operations | <u>(51,038,799)</u> |
| Non-operating revenues (expenses): | |
| State apportionment, non capital | 32,575,523 |
| Local property taxes (Note 7) | 11,051,913 |
| State taxes and other revenues | 8,502,430 |
| Investment income | 3,977,969 |
| Interest expense on capital asset-related debt, net | (5,340,507) |
| Other non-operating revenues | <u>15,063</u> |
| Total non-operating revenues (expenses) | <u>50,782,391</u> |
| Loss before capital revenues | <u>(256,408)</u> |
| Capital revenues: | |
| State apportionment, capital | 218,369 |
| Local property taxes and revenues | 456,545 |
| Grants and gifts, capital | <u>54,710</u> |
| Total capital revenues | <u>729,624</u> |
| Increase in net assets | <u>473,216</u> |
| Net assets, beginning of year, as previously reported | 34,166,721 |
| Prior period restatement (Note 13) | <u>(2,648,885)</u> |
| Net assets, beginning of year, as restated | <u>31,517,836</u> |
| Net assets, end of year | <u>\$ 31,991,052</u> |

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

SOLANO COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2008

| | |
|---|----------------------|
| Cash flows from operating activities: | |
| Tuition and fees | \$ 4,600,264 |
| Federal grants and contracts | 5,821,192 |
| State grants and contracts | 4,749,655 |
| Local grants and contracts | 1,595,277 |
| Payments to suppliers | (12,263,445) |
| Payments for utilities | (1,899,916) |
| Payments to employees | (34,268,443) |
| Payments for benefits | (12,469,146) |
| Payments to students | (5,491,214) |
| Loans to students | (500) |
| Auxiliary enterprises sales and charges | <u>586,422</u> |
| Net cash used in operating activities | <u>(49,039,854)</u> |
| Cash flows from noncapital financing activities: | |
| State appropriations | 33,079,508 |
| Local property taxes | 11,052,935 |
| State taxes and other revenues | 8,463,381 |
| Other nonoperating revenues | 11,182 |
| Scholarship and trust receipts and disbursements | <u>57,257</u> |
| Net cash provided by noncapital financing activities | <u>52,664,263</u> |
| Cash flows from capital and related financing activities: | |
| Local revenue for capital purposes | 456,445 |
| Gifts and grants, capital | 54,710 |
| Proceeds from sale of capital assets | (12,331) |
| Purchase of capital assets | (21,283,296) |
| Principal paid on capital debt | (3,267,521) |
| Interest paid on capital debt | (4,089,703) |
| State appropriations for capital purposes | <u>218,369</u> |
| Net cash used in capital and related financing activities | <u>(27,923,327)</u> |
| Cash flows provided by investing activities: | |
| Interest income | <u>3,995,906</u> |
| Net decrease in cash and cash equivalents | (20,303,012) |
| Cash and cash equivalents, beginning of year | <u>105,395,122</u> |
| Cash and cash equivalents, end of year | <u>\$ 85,092,110</u> |

(Continued)

SOLANO COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS

(Continued)

For the Year Ended June 30, 2008

| | |
|---|------------------------|
| Reconciliation of loss from operations to net cash used in operating activities: | |
| Loss from operations | \$ (51,038,799) |
| Adjustments to reconcile loss from operations to net cash used in operating activities: | |
| Depreciation expense | 2,447,611 |
| Changes in assets and liabilities: | |
| Receivables, net | (1,438,138) |
| Inventories | (37,239) |
| Prepaid expenses | 175,059 |
| Accounts payable | 220,194 |
| Accrued payroll | (1,087,819) |
| Deferred revenue | 759,974 |
| Compensated absences | (1,248) |
| Retiree enhancement program | <u>960,551</u> |
| Net cash used in operating activities | <u>\$ (49,039,854)</u> |

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

SOLANO COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Solano Community College District (District) is a political subdivision of the State of California and provides educational services to the local residents of the surrounding area. While the District is a political subdivision of the state, it is not a component unit of the state in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14. The District is classified as a state instrumentality.

The decision to include potential component units in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP) and GASB Statement 14 as amended by GASB Statement 39. The three criteria for requiring a legally separate, tax-exempt organization to be presented as a component unit are the "direct benefit" criterion, the "entitlement/ability to access" criterion, and the "significance criterion. The District identified the Solano College Theater Association (Association) as a potential component unit.

The Association is a nonprofit, tax-exempt organization dedicated to providing financial benefits generated from fundraising efforts and investments earnings to the District. The funds contributed by the Association to the District are significant to the District's financial statements. The District applied the criteria for identifying component units in accordance with GASB Statement 39 and, therefore, the District has classified the Association as a component unit that will be blended in the District's financial statements.

Basis of Presentation

GASB released Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" in June 1999, which established a new reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities," which applies the new reporting standards of GASB Statement No. 34 to public colleges and universities. The GASB then amended those statements in June 2001 with the issuance of GASB Statements No. 37 and No. 38. The District adopted and applied these new standards beginning in 2002-03 as required. In May 2002, the GASB released Statement No. 39, "Determining Whether Certain Organizations Are Component Units," which amends GASB Statement 14, paragraphs 41 and 42, to provide guidance for determining and reporting whether certain organizations are component units. The District adopted and applied this standard for the 2003-04 fiscal year as required. The District now follows the financial statement presentation required by GASB Statements No. 34, 35, 37, 38 and 39. This presentation provides a comprehensive, entity-wide perspective of the District's assets, cash flows, and replaces the fund-group perspective previously required.

SOLANO COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities. Under this model, the District's financial statements provide a comprehensive one-line look at its financial activities. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. All significant intra-agency transactions have been eliminated.

The District has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The District has elected to not apply FASB pronouncements issued after that date.

Cash and Cash Equivalents

For the purposes of the financial statements, cash equivalents are defined as financial instruments with an original maturity of three months or less. Funds invested in investment pools are considered cash equivalents.

Restricted Cash and Cash Equivalents

Cash that is externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets, is classified as non current assets in the statement of net assets.

Fair Value of Pooled Investments

The District records its investment in Solano County Treasury at fair value. Changes in fair value are reported as revenue in the statement of revenues, expenses and changes in net assets. The fair value of investments including the Solano County Treasury, as an external investment pool at June 30, 2008 approximated their carrying value.

Accounts Receivable

Accounts receivable consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of California. Accounts receivable also include amounts due from the federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts.

SOLANO COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

Inventory consists of cafeteria food, textbooks and educational supplies. Except for bookstore inventories, which are valued using the retail method, inventories are stated at the lower of cost (first-in, first-out method) or market.

Capital Assets

Capital assets are recorded at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the District's capitalization policy includes all items with a unit cost of \$5,000 or more, and estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 5 - 50 years depending on asset type.

The District evaluates capital assets for financial impairment as events or changes in circumstances indicate that the carrying amounts of such assets may not be fully recoverable.

Compensated Absences

Compensated absence costs are accrued when earned by employees. Accumulated unpaid employee vacation benefits are recognized at year end as liabilities of the District.

Sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expenditure or expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits for certain STRS and PERS employees, when the employee retires.

Deferred Revenue

Revenue from federal, state and local special projects and programs is recognized when qualified expenditures have been incurred. Funds received but not earned are recorded as deferred revenue until earned.

SOLANO COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

The District's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the District's total investment in capital assets, net of associated outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component invested in capital assets, net of related debt.

Restricted net assets – expendable: Restricted expendable net assets include resources in which the District is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted net assets – nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. There are currently no nonexpendable assets of the District.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, state apportionments, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the District, and may be used at the discretion of the governing board to meet current expenses for any purpose.

Classification of Revenue

The District has classified its revenues as either operating or nonoperating revenues. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Statement No. 35 including state appropriations, local property taxes, and investment income. Nearly all the District's expenses are from exchange transactions. Revenues and expenses are classified according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, (3) most federal, state and local grants and contracts and federal appropriations, and (4) interest on institutional student loans.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics on nonexchange transactions, such as gifts and contributions, and other revenue sources described in GASB Statement No. 35, such as state appropriations and investment income.

SOLANO COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

State Apportionment

Certain current year apportionments from the state are based on various financial and statistical information of the previous year. Any prior year corrections due to the State's recertification will be recorded in the year computed by the state.

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. These estimates and assumptions 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 during the reporting period. Accordingly, actual results may differ from those estimates.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

District cash, cash equivalents, and investments at June 30, 2008, consisted of the following:

Pooled Funds:

| | |
|------------------------------|---------------|
| Cash in County Treasury | \$ 76,125,485 |
| Local Agency Investment Fund | 185,494 |

Deposits:

| | |
|----------------------------|---------------|
| Cash held by Fiscal Agents | 7,211,719 |
| Cash on hand and in banks | 1,520,483 |
| Cash in Revolving Account | <u>48,929</u> |

Total cash and cash equivalents 85,092,110

Less: restricted cash and cash equivalents:

| | |
|----------------------------|----------------|
| Cash in County Treasury | 67,234,757 |
| Cash held by Fiscal Agents | 7,211,719 |
| Cash held in trust | <u>522,090</u> |

Total restricted cash and cash equivalents 74,968,566

Net cash and cash equivalents \$ 10,123,544

SOLANO COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Pooled Funds – Credit Risk

As provided for in Education Code Section 41001, a significant portion of the District's cash balances is deposited with the County Treasurer for the purpose of increasing interest earnings through County investment activities. Interest earned on such pooled cash balances is allocated proportionately to all funds in the pool. The restricted cash and cash equivalents represent bond proceeds and debt service funds restricted for capital projects and bond repayment.

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District no disclosure of the individual deposits and investments or related custodial risk classifications is required.

In accordance with applicable state laws, the Solano County Treasurer may invest in derivative securities. However, at June 30, 2008, the Solano County Treasurer has indicated that the Treasurer's pooled investment fund contained no derivatives or other investments with similar risk profiles.

The cash in Local Agency Investment Fund (LAIF) is held by a separate agency. The State of California pools these funds with those of other local agencies in the state and invests the cash as prescribed by the *California Government Code*. These pooled funds are carried at cost, which approximates fair value. Interest earned is deposited quarterly into participating funds. Any investment losses are shared proportionately by all funds in the pool. California's State pool representatives have indicated that the Fund has not invested in plain vanilla or complex over-the-counter derivatives. The Local Agency Investment Fund has represented that the fund contained no derivatives or other investments with similar risk profiles at June 30, 2008.

Custodian Credit Risk

The California Government Code requires California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an agency's total deposits and collateral is considered to be held in the name of the District. All cash held by financial institutions is entirely insured or collateralized.

Cash balances held in banks are insured up to \$100,000 by the Federal Depository Insurance Corporation (FDIC). At June 30, 2008, the carrying amount of the District's cash on hand and in banks was \$1,520,483 and the bank balance was \$1,107,821. The bank balance amount insured by the FDIC was \$100,000.

SOLANO COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Investment Credit Risk

The District does not have a formal investment policy that limits its investment choices other than the limitations of state law. In accordance with Sections 53601 and 53602 of the California Government code, the District may invest in the following types of investments:

- Local agency bonds, notes or warrants within the state
- Securities of the U.S. Government or its agencies
- Certificates of Deposit with commercial banks
- Commercial paper
- Repurchase Agreements

Interest Rate Risk

The District does not have a formal investment policy that limits cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2008, the District had no significant interest rate risk related to cash and investments held.

Concentration of Credit Risk

The District does not place limits on the amount it may invest in any one issuer. At June 30, 2008, the District had no concentration of credit risk.

3. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2008 are summarized as follows:

| | | |
|--------------------------------------|----|---------------------|
| Federal | \$ | 170,008 |
| State | | 4,609,767 |
| Local and other | | <u>923,130</u> |
| | | 5,702,905 |
| Less allowance for doubtful accounts | | <u>(132,289)</u> |
| | | <u>\$ 5,570,616</u> |

The allowance for doubtful accounts is maintained at an amount which management considers sufficient to fully reserve and provide for the possible uncollectibility of other receivable balances.

SOLANO COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

4. CAPITAL ASSETS

Capital asset activity consists of the following:

| | Balance July 1, 2007 | Transfers and Additions | Transfers and Disposals | Balance June 30, 2008 |
|--------------------------------|----------------------------|-------------------------------|-------------------------------|-----------------------------|
| Land | \$ 4,262,650 | \$ 2,261,705 | | \$ 6,524,355 |
| Land improvements | 4,476,586 | 3,362,174 | | 7,838,760 |
| Building improvements | 3,851,338 | 2,192,667 | | 6,044,005 |
| Machinery and equipment | 10,284,752 | 520,285 | \$ (37,027) | 10,768,010 |
| Buildings | 57,553,261 | 9,713,421 | | 67,266,682 |
| Construction work in progress | <u>15,609,578</u> | <u>24,687,611</u> | <u>(21,454,567)</u> | <u>18,842,622</u> |
| Total | <u>96,038,165</u> | <u>42,737,863</u> | <u>(21,491,594)</u> | <u>117,284,434</u> |
| Less accumulated depreciation: | | | | |
| Land improvements | (2,760,311) | (177,201) | | (2,937,512) |
| Building improvements | (119,223) | (247,384) | | (366,607) |
| Machinery and equipment | (6,431,784) | (732,882) | 24,696 | (7,139,970) |
| Buildings | <u>(12,826,623)</u> | <u>(1,290,144)</u> | | <u>(14,116,767)</u> |
| Total | <u>(22,137,941)</u> | <u>(2,447,611)</u> | <u>24,696</u> | <u>(24,560,856)</u> |
| Capital assets, net | <u>\$ 73,900,224</u> | <u>\$ 40,290,252</u> | <u>\$ (21,466,898)</u> | <u>\$ 92,723,578</u> |

5. DEFERRED REVENUE

Deferred revenue at June 30, 2008 consists of the following:

| | |
|---|---------------------|
| Deferred federal and state revenue | \$ 1,309,744 |
| Deferred student fees | 818,980 |
| Deferred tuition and other student fees | <u>1,126,418</u> |
| Total deferred revenue | <u>\$ 3,255,142</u> |

SOLANO COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

6. LONG-TERM DEBT

Student Center Revenue Bonds

The revenue bonds are collateralized by revenue from the student centers. The annual debt service for these bonds is provided by student fees.

| <u>Date of Issue</u> | <u>Interest Rate %</u> | <u>Maturity Date</u> | <u>Outstanding July 1, 2007</u> | <u>Redeemed Current Year</u> | <u>Outstanding June 30, 2008</u> |
|----------------------|------------------------|----------------------|---------------------------------|------------------------------|----------------------------------|
| April 1969 | 3.00% | 2009 | \$ 57,200 | \$ 30,000 | \$ 27,200 |

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|------------------|-----------------|--------------|
| 2009 | \$ 27,200 | \$ 816 | \$ 28,016 |

General Obligation Bonds

In May 2003, the District issued General Obligation Bonds in the amount of \$80,000,000 for the purpose of construction and repairing college education facilities.

In March 2005, the District issued \$81,349,812 of General Obligation Refunding Bonds with interest rates ranging from 3% to 5% to advance refund the 2003 issued and outstanding term bonds with remaining obligation of \$77,045,000. The final maturity date of the bonds is August 1, 2022. After payment of issuance and related costs of \$1,002,244, the net proceeds of the bond sale were \$88,845,928. \$80,406,861 of the net proceeds was used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the term bonds are paid in full. The advanced refunding met the requirements of a legal debt defeasance and the prior bond issuance is removed from the District's government wide financial statements. The premium from the bond issuance of \$8,498,361 and gain on defeasance of \$702,367 are capitalized and being amortized over the life of the bond.

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|----------------------|----------------------|-----------------------|
| 2009 | \$ 2,720,000 | \$ 3,199,187 | \$ 5,919,187 |
| 2010 | 3,010,000 | 3,104,862 | 6,114,862 |
| 2011 | 3,330,000 | 2,991,937 | 6,321,937 |
| 2012 | 3,680,000 | 2,857,312 | 6,537,312 |
| 2013 | 4,055,000 | 2,702,612 | 6,757,612 |
| 2014-2018 | 26,945,000 | 10,409,536 | 37,354,536 |
| 2019-2023 | 31,539,812 | 12,834,058 | 44,373,870 |
| | <u>\$ 75,279,812</u> | <u>\$ 38,099,504</u> | <u>\$ 113,379,316</u> |

SOLANO COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

6. LONG-TERM DEBT (Continued)

General Obligation Bonds (Continued)

In September 2006, the District issued Series B, 2002 General Obligation Bonds aggregating \$44,495,279. The bonds mature through 2031 and bear interest at rates ranging from 4% to 5%. The proceeds from the issuance will be used to finance the acquisition, construction and modernization of certain District property and facilities. The premium from the bond issuance of \$740,075 is capitalized and being amortized over the life of the bond.

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------|----------------------|----------------------|-----------------------|
| 2009 | \$ 510,000 | \$ 739,635 | \$ 1,249,635 |
| 2010 | 505,000 | 719,335 | 1,224,335 |
| 2011 | 495,000 | 699,335 | 1,194,335 |
| 2012 | 480,000 | 679,835 | 1,159,835 |
| 2013 | 465,000 | 660,935 | 1,125,935 |
| 2014-2018 | 1,657,169 | 3,308,681 | 4,965,850 |
| 2019-2023 | 670,000 | 5,022,591 | 5,692,591 |
| 2024-2028 | 19,911,616 | 31,076,222 | 50,987,838 |
| 2029-2032 | <u>19,201,494</u> | <u>18,170,189</u> | <u>37,371,683</u> |
| | <u>\$ 43,895,279</u> | <u>\$ 61,076,758</u> | <u>\$ 104,972,037</u> |

Capital Lease Obligations

The District has entered into various lease-purchase agreements for equipment originally valued at \$2,235,241 under agreements which provide for title to pass upon expiration of the lease period. Interest charged on certain lease-purchase agreements is calculated at 65% to 72% of prime rates. The capitalized lease obligations are generally collateralized by the leased property. The annual debt service for these leases is paid from the operating revenues of the District.

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------|-------------------|-------------------|-------------------|
| 2009 | \$ 78,690 | \$ 32,329 | \$ 111,019 |
| 2010 | 82,654 | 28,365 | 111,019 |
| 2011 | 86,818 | 24,201 | 111,019 |
| 2012 | 91,191 | 19,828 | 111,019 |
| 2013 | 95,785 | 15,234 | 111,019 |
| 2014-2016 | <u>200,297</u> | <u>15,750</u> | <u>216,047</u> |
| | <u>\$ 635,435</u> | <u>\$ 135,707</u> | <u>\$ 771,142</u> |

SOLANO COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

6. LONG-TERM DEBT (Continued)

Capital Lease Obligations (Continued)

Changes in general long-term debt are as follows:

| | Balance <u>July 1, 2007</u> | <u>Additions</u> | <u>Deletions</u> | Balance <u>June 30, 2008</u> | Due Within <u>One Year</u> |
|-------------------------------|--------------------------------|---------------------|---------------------|---------------------------------|-------------------------------|
| Student Center Revenue Bond | \$ 57,200 | | \$ 30,000 | \$ 27,200 | \$ 27,200 |
| General Obligation Bonds | 122,220,091 | | 3,045,000 | 119,175,091 | 3,230,000 |
| Capitalized lease obligations | 827,957 | | 192,522 | 635,435 | 78,690 |
| Retiree benefits | 6,940,454 | \$ 2,161,437 | 1,200,886 | 7,901,005 | |
| Compensated absences | 1,172,313 | 15,553 | 16,801 | 1,171,065 | |
| Accreted interest * | 1,751,704 | 1,729,785 | | 3,481,489 | |
| | <u>\$ 132,969,719</u> | <u>\$ 3,906,775</u> | <u>\$ 4,485,209</u> | <u>\$ 132,391,285</u> | <u>\$ 3,335,890</u> |

* The beginning balance for accreted interest is a prior period restatement, see Note 13.

7. PROPERTY TAXES

All property taxes are levied and collected by the Tax Assessor of the County of Solano and paid upon collection to the various taxing entities including the District. Secured taxes are levied on July 1 and are due in two installments on November 1 and February 1, and become delinquent on December 10 and April 10, respectively. The lien date for secured and unsecured property taxes is March 1 of the preceding fiscal year.

8. EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System, and classified employees are members of the California Public Employees' Retirement System. Part-time faculty may also elect to participate in social security.

State Teachers' Retirement System (STRS)

Plan Description

All certificated employees and those employees meeting minimum standards adopted by the Board of Governors of the California Community Colleges and employed 50 percent or more of a full-time equivalent position participate in the Defined Benefit Plan (DB Plan). Part-time educators hired under a contract of less than 50 percent or on an hourly or daily basis without contract may elect membership in the Cash Balance Benefit Program (CB Benefit Program). The State Teachers' Retirement Law (Part 13 of the *California Education Code*, Section 22000 et seq.) established benefit provisions for STRS. Copies of the STRS annual financial report may be obtained from the STRS Executive Office, 7667 Folsom Boulevard, Sacramento, California 95851.

SOLANO COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

8. EMPLOYEE RETIREMENT SYSTEMS (Continued)

State Teachers' Retirement System (STRS) (Continued)

Plan Description (Continued)

The State Teachers' Retirement Plan (STRP), a defined benefit pension plan, provides retirement, disability, and death benefits, and depending on which component of the STRP the employee is in, postretirement cost-of-living adjustments may also be offered. Employees in the DB Plan attaining the age of 60 with five years of credited California service (service) are eligible for "normal" retirement and are entitled to a monthly benefit of two percent of their final compensation for each year of service. Final compensation is generally defined as the average salary earnable for the highest three consecutive years of service. The plan permits early retirement options at age 55 or as early as age 50 with at least 30 years of service. Disability benefits of up to 90 percent of final compensation to members with five years of service. After five years of credited service, members become 100 percent vested in retirement benefits earned to date. If a member's employment is terminated, the accumulated member contributions are refundable. The features of the CB Benefit Program include immediate vesting, variable contribution rates that can be bargained, guaranteed interest rates, and flexible retirement options. Participation in the CB Benefit Program is optional; however, if the employee selects the CB Benefit Program and their basis of employment changes to half time or more, the member will automatically become a member of the DB Plan.

Funding Policy

Active members of the DB Plan are required to contribute 8% 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 STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2007-08 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The CB Benefit Program is an alternative STRS 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 4% with the sum of the District and employee contribution always being equal or greater than 8%.

SOLANO COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

8. EMPLOYEE RETIREMENT SYSTEMS (Continued)

State Teachers' Retirement System (STRS) (Continued)

Annual Pension Cost

The District's total contributions to STRS for the fiscal years ended June 30, 2008, 2007, and 2006 were \$1,569,981, \$1,333,516 and \$1,354,740, respectively and equal 100% of the required contributions for each year. The State of California may make additional direct payments for retirement benefits to the STRS on behalf of all community colleges in the state. The revenue and expenditures associated with these payments, if any, have not been included in these financial statements. In their most recent actuarial valuation of the DB Plan as of June 30, 2005, the independent actuaries for STRS determined that, at June 30, 2005, the actuarial value of the DB Plan's actuarial accrued liabilities exceeded the program's actuarial value of assets by \$20.3 billion. Based on this valuation, the current statutory contributions are sufficient to fund normal cost and amortize the actuarial unfunded obligation of \$20.3 billion by 2030. However, future estimates of the actuarial unfunded obligation may change due to market performance, legislative actions and other membership related factors. In their most recent actuarial valuation of the CB Benefit Program as of June 30, 2005, the independent actuaries for STRS determined that, at June 30, 2005, the actuarial value of the CB Benefit Program's actuarial accrued liabilities exceeded the program's actuarial value of assets by \$2.1 million. The STRS management is continually evaluating the impact of market fluctuations on the assets of the CB Benefit Program. However, future estimates of the actuarial unfunded obligation may change due to market performance, legislative actions and other membership related factors.

California Public Employees' Retirement System (CalPERS)

Plan Description

All full-time classified employees participate in the CalPERS, an agent multiple employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. Employees are eligible for retirement as early as age 50 with five years of service. At age 55, the employee is entitled to a monthly benefit of 2.0 percent of final compensation for each year of service credit. Retirement compensation is less if the plan is coordinated with Social Security. Retirement after age 55 increases the monthly benefit percentage rate to a maximum of 2.5 percent at age 63. The plan also provides death and disability benefits. Retirement benefits fully vest after five years of credited service. Upon separation from the Fund, members' accumulated contributions are refundable with interest credited through the date of separation. The Public Employees' Retirement Law (Part 3 of the *California Government Code*, Section 20000 et seq.) establishes benefit provisions for CalPERS. 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 95814.

SOLANO COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

8. EMPLOYEE RETIREMENT SYSTEMS (Continued)

California Public Employees' Retirement System (CalPERS) (Continued)

Funding Policy

Active plan members are required to contribute 7% of their salary and the district is required to contribute an actuarially determined rate. The District's contribution rate to CalPERS for fiscal year 2007-08 was 9.306%.

Annual Pension Cost

The District's contributions to CalPERS for fiscal years ending June 30, 2008, 2007 and 2006 were \$942,004, \$867,702 and \$778,259, respectively, and equaled 100 percent of the required contributions for each year. The actuarial assumptions used as part of the June 30, 2005, actuarial valuation (the most recent actuarial information available) included (a) an 8.25% investment rate of return (net of administrative expense); (b) an overall growth in payroll of 3.75% annually; and (c) an inflation component of 3.5% compounded annually that is a component of assumed wage growth, and assumed future post-retirement cost of living increases. The actuarial value of pension fund assets was determined by using a technique to smooth the effect of short-term volatility in the market value of investments.

9. POST-RETIREMENT HEALTH CARE BENEFITS

In addition to the pension benefits described in Note 8, the District provides post-retirement health care benefits to employees hired prior to July 1, 1997 and who retire from the District and meet the specific eligibility requirements set forth in their prospective employment contracts.

The District pays medical, dental and vision care insurance premiums to maintain the level of coverage enjoyed by the retiree immediately preceding retirement up to 10 years beyond retirement. Expenditures for post-retirement health care benefits are recognized as the premiums are paid. For the year ended June 30, 2008, expenditures of approximately \$1,200,886 were recognized for post-retirement health care benefits. The District has accrued a liability for the total cost of providing these benefits to the 90 retirees based on current premium assessment levels. The liability of \$7,901,005 at June 30, 2008 has not been discounted for the time value of money and does not reflect the projected increase in costs for inflation or mortality assumptions for these retirees' future healthcare costs. In addition, the recorded liability does not consider the estimated cost of providing the above stated benefits to the current employees of the District upon retirement.

SOLANO COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

10. DEFERRED COMPENSATION PLANS

The District offers its employees a deferred compensation plan through CalPERS in accordance with Internal Revenue Code Section 457. The plan, available to all employees contributing to PERs, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until their disability, termination, retirement, death or unforeseeable emergency.

The assets under the District's 457 plan are held in trust. In accordance with a law change in August 1996, these assets are considered protected from the general creditors of the District and are not reflected on the balance sheet of the District.

11. COMMITMENTS AND CONTINGENT LIABILITIES

Construction Commitments

As of June 30, 2008, the District has approximately \$54 million in outstanding commitments on construction projects.

Contingent Liabilities

There are various claims and legal actions pending against the District for which no provision has been made in the basic financial statements. In the opinion of the District, any liabilities arising from these claims and legal actions are not considered significant.

The District has received federal and state funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could result in expenditure disallowances under terms of the grants, it is management's opinion that any required reimbursements or future revenue offsets subsequently determined will not have a material effect on the district's financial position.

12. JOINT POWERS AGREEMENTS

The Solano Community College District participates in Joint Power Agreements (JPAs), with the Northern California Community College Self Insurance Authority (NCCCSIA) and North Bay Schools Insurance Authority (NBSIA). The relationship between the Solano Community College District and the JPAs is such that they are not component units of the Solano Community College District for financial reporting purposes.

The JPAs are governed by boards consisting of a representative from each member district. The boards control the operations of the JPAs, including the selection of management and approval of operating budgets, independent of any influence by the member district beyond their representation on the governing board. NCCCSIA provides workers' compensation and property and liability insurance for its members. NBSIA provides dental insurance for its members. The Solano Community College District pays a premium commensurate with the level of coverage requested.

Member districts share surpluses and deficits proportionate to their participation in the JPAs. The JPAs are independently accountable for their fiscal matters and maintain their own accounting records. Budgets are subject to approval by the governing board.

SOLANO COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

12. JOINT POWERS AGREEMENTS (Continued)

Condensed financial information of the JPAs for the most current year for which audited information is available, is as follows:

| | June 30, 2008 NCCCSIA | June 30, 2007 NBSIA |
|-------------------|-----------------------------|---------------------------|
| Total assets | \$ 13,032,136 | \$ 36,481,687 |
| Total liabilities | \$ 7,479,422 | \$ 23,464,431 |
| Net assets | \$ 5,552,714 | \$ 13,017,256 |
| Total revenues | \$ 7,802,916 | \$ 18,189,324 |
| Total expenses | \$ 8,697,521 | \$ 16,228,280 |

13. PRIOR PERIOD RESTATEMENTS

These financial statements include the impact of restatements for accreted interest on capital appreciation bonds, Cash with Fiscal Agent and apportionment revenue as described below.

Capital Appreciation Bonds

The District issued General Obligation Bonds in 2005 and 2006, which consisted of both current interest and capital appreciation bonds. Current interest bonds require the payment of interest semi-annually, while the capital appreciation bonds require no payment until the bonds mature. Accordingly, interest on these capital appreciation bonds should accrete each year until they mature.

The recognition of accreted interest in the long-term debt does not affect the bond payment schedule or total principal and interest due on these bonds as they have been reported in Note 6. In addition, accreted interest does not affect the fund balance of any of the funds of the District.

It was determined that the accreted interest on these capital appreciation bonds (Note 6) was not recorded in prior periods resulting in an understatement of long-term liabilities of \$1,751,704.

Cash with Fiscal Agent

The District had Cash with Fiscal Agent for the repayment of bond debt which was not included in the prior year's financial statements. The understatement of cash was \$1,067,874.

Apportionment Revenue

The District overreported full-time equivalent students for 2005/06 and 2006/07 fiscal years resulting in an overstatement of apportionment revenues recognized in prior years of \$1,965,055.

SOLANO COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

13. PRIOR PERIOD RESTATEMENTS (Continued)

Net assets as of July 1, 2007 have been restated to account for these prior period amounts as follows:

| | |
|--|-----------------------|
| Understatement of accreted interest | \$ (1,751,704) |
| Understatement of Cash with Fiscal Agent | 1,067,874 |
| Overstatement of apportionment revenue | <u>(1,965,055)</u> |
| Restatement of net assets | <u>\$ (2,648,885)</u> |

SUPPLEMENTAL INFORMATION

**INDEPENDENT AUDITOR'S REPORT ON
SUPPLEMENTAL INFORMATION**

Audit Committee
Solano Community College District
Fairfield, California

We have audited the basic financial statements of Solano Community College District as of and for the year ended June 30, 2008, and have issued our report thereon dated May 15, 2009. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards for financial and compliance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the California Community Colleges Contracted District Audit Manual, presented by the Chancellor's office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental financial and statistical information is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements of Solano Community College District and includes the following schedules:

- Organization
- Schedule of Federal Financial Awards
- Schedule of State Financial Awards
- Schedule of Workload Measures for State General Apportionment
- Reconciliation of Annual Financial and Budget Report (CCFS-311) with Audited Basic Financial Statements
- Notes to Supplemental Information

The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sacramento, California
May 15, 2009

Perry-Smith LLP

SOLANO COMMUNITY COLLEGE DISTRICT

ORGANIZATION

June 30, 2008

Solano Community College District was established in 1945, and is comprised of one 192-acre campus and two education centers located in Vacaville and Vallejo. There were no changes in the boundaries of the District during the current year.

The Governing Board and District Administration for the fiscal year ended June 30, 2008 were composed of the following members:

BOARD OF TRUSTEES

| <u>Members</u> | <u>Office</u> | <u>Term Expires</u> |
|-------------------------|----------------|---------------------|
| Phil McCaffrey | President | December 2008 |
| A.C. "Tony" Ubalde, Jr. | Vice President | December 2008 |
| Pam A. Keith | Member | December 2010 |
| James M. Claffey | Member | December 2008 |
| Denis Honeychurch | Member | December 2010 |
| A. Marie Young | Member | December 2010 |
| Stephen Murphy | Member | December 2010 |

DISTRICT ADMINISTRATION

Gerry Fisher
Superintendent/President

Mazie L. Brewington
Vice President, Administrative & Business Services

SOLANO COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FEDERAL FINANCIAL AWARDS
For the Year Ended June 30, 2008

| <u>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</u> | <u>Federal CFDA Number</u> | <u>Federal Expenditures</u> |
|--|------------------------------------|---------------------------------|
| <u>U.S. Department of Education</u> | | |
| Student Financial Aid: | | |
| Federal Work Study | 84.003 | \$ 196,726 |
| Pell Grant Program | 84.064 | 4,396,630 |
| Federal Supplemental Educational Opportunity Grant | 84.007 | 243,141 |
| Academic Competitiveness Grant | 84.375 | <u>21,775</u> |
| Subtotal Student Financial Aid Cluster | | <u>4,858,272</u> |
| Vocational and Applied Technology Educational Act | 84.048 | 277,626 |
| Vocational and Adult Education Tech Prep Education | 84.243 | 76,648 |
| Veteran Assistance Title 38 | 84.111 | <u>3,701</u> |
| Total U.S. Department of Education | | <u>357,975</u> |
| <u>U.S. Department of Agriculture</u> | | |
| Child Care Food Program | 10.558 | <u>38,985</u> |
| <u>U.S. Department of Labor</u> | | |
| Workforce Investment Act | 17.261 | <u>276,256</u> |
| Total Federal Categorical Awards and Allowances | | <u>\$ 5,531,488</u> |

See accompanying notes to
supplemental information.

**SOLANO COMMUNITY COLLEGE DISTRICT
SCHEDULE OF STATE FINANCIAL AWARDS**

For the Year Ended June 30, 2008

| | Program Entitlements | | | Program Revenues | | | | | Program Expenditures |
|--|----------------------|---------------------|---------------------|---------------------|-----------------------------|---------------------|-------------------|---------------------|----------------------|
| | Current Year | Prior Year | Total | Cash Received | Local Revenue Contributions | Accounts Receivable | Deferred Revenue | | |
| EOPS Apportionment | \$ 543,638 | | \$ 543,638 | \$ 543,638 | | | | \$ 543,638 | |
| CARE Grant | 87,551 | | 87,551 | 87,551 | | | | 87,551 | |
| DSP&S Apportionment | 865,304 | | 865,304 | 865,304 | | | | 865,304 | |
| TANF: State Share | 46,137 | | 46,137 | 46,137 | | | | 46,137 | |
| Cal Works | 307,360 | | 307,360 | 287,359 | | \$ 20,001 | | 307,360 | |
| Matriculation | 649,087 | | 649,087 | 649,087 | | | | 649,087 | |
| Matriculation-Non-credit | 13,964 | | 13,964 | 13,964 | | | | 13,964 | |
| Foster & Kinship Care | 202,751 | | 202,751 | | | 202,751 | | 202,751 | |
| Independent Living | 10,550 | | 10,550 | | | 10,550 | | 10,550 | |
| MESA | 84,515 | | 84,515 | 61,125 | | 23,390 | | 84,515 | |
| Transfer Ed & Articulation | 5,000 | | 5,000 | 5,000 | | | | 5,000 | |
| Scheduled Maintenance – one time | 37,500 | \$ 337,355 | 374,855 | 374,855 | | | \$ 261,925 | 112,930 | |
| Scheduled Maintenance – on-going | 100,000 | 14,470 | 114,470 | 114,470 | | | 25,157 | 89,313 | |
| PreKindergarten Resource | 3,290 | | 3,290 | 823 | | 2,467 | | 3,290 | |
| Econ Devel – Nursing | 207,650 | | 207,650 | 207,650 | | | 79,525 | 128,125 | |
| State Pre School: Pt Day | 166,553 | | 166,553 | 153,328 | | 13,225 | | 166,553 | |
| Food Program (State) | 2,613 | | 2,613 | 1,788 | | 825 | | 2,613 | |
| State Pre School: Ft Day | 191,802 | | 191,802 | 112,751 | \$ 1,017 | 78,034 | | 191,802 | |
| Children's Center – Gen Child Care | 361,269 | | 361,269 | 174,494 | | 186,775 | | 361,269 | |
| TTIP | 45,183 | | 113,067 | 113,067 | | | 60,099 | 52,968 | |
| Staff Development | 13,628 | | 54,285 | 54,285 | | | 54,285 | 22,706 | |
| Staff Diversity | | | 9,078 | 22,706 | | | | 2,956 | |
| State Block Grant | | | 9,691 | 9,691 | | | 6,735 | 2,956 | |
| TANF: CDC | | | 83,946 | 43,853 | | | 23,474 | 20,379 | |
| Instructional Equipment – one time | 37,500 | | 335,821 | 335,821 | | | 214,663 | 121,158 | |
| Instructional Equipment | 100,000 | | 141,720 | 141,720 | | | 83,874 | 57,846 | |
| BFAP Administrative Allowance | 300,664 | | 300,664 | 300,664 | | | | 300,664 | |
| Child Development Instructional Supplies | 2,492 | | 2,492 | 2,492 | | | | 2,492 | |
| Career Tech Ed – Business | 124,750 | | 254,139 | 124,750 | | 99,773 | | 224,523 | |
| Basic Skills – one time | | | 57,274 | 57,274 | | | | 57,274 | |
| Basic Skills – on-going | 116,032 | | 224,990 | 224,990 | | | 75,646 | 149,344 | |
| CCDAA – AB 212 | 11,154 | | 11,154 | 7,674 | | | 1,565 | 6,109 | |
| Nursing – CTE Faculty Recruitment | | | 164,580 | 48,275 | | | | 48,275 | |
| Renovations and Repair | | | 3,700 | 3,700 | | | 3,700 | | |
| Total | \$ 4,641,637 | \$ 1,376,951 | \$ 6,018,588 | \$ 5,190,286 | \$ 1,017 | \$ 637,791 | \$ 890,648 | \$ 4,938,446 | |

See accompanying notes to supplemental information.

SOLANO COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF WORKLOAD MEASURES FOR
STATE GENERAL APPORTIONMENT**

Annualized Attendance as of June 30, 2008

| <u>Categories</u> | <u>Reported Data</u> | <u>Audit Adjustments</u> | <u>Revised Data</u> |
|--|--------------------------|------------------------------|-------------------------|
| A. Summer Intersession | | | |
| 1. Noncredit | 11 | | 11 |
| 2. Credit | 856 | 55 | 911 |
| B. Summer Intersession | | | |
| 1. Noncredit | - | | - |
| 2. Credit | 249 | | 249 |
| C. Primary Terms | | | |
| 1. Census Procedure Courses | | | |
| a. Weekly Census Contact Hours | 5,899 | (19) | 5,880 |
| b. Daily Census Contact Hours | 460 | | 460 |
| 2. Actual Hours of Attendance Procedure Courses | | | |
| a. Noncredit | 122 | | 122 |
| b. Credit | 480 | | 480 |
| 3. Independent Study/Work Experience | | | |
| a. Weekly Census Contact Hours | 755 | | 755 |
| b. Daily Census Contact Hours | 268 | | 268 |
| c. Noncredit Independent Study/Distance Education Courses | - | | - |
| D. Total FTES | <u>9,100</u> | <u>36</u> | <u>9,136</u> |
| Supplemental Information: | | | |
| E. In-Service Training Courses (FTES) | - | | - |
| H. Basic Skills Courses and Immigrant Education | | | |
| a. Noncredit | - | | - |
| b. Credit | 396 | | 396 |

See accompanying notes to
supplemental information.

SOLANO COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
(CCFS-311) WITH AUDITED FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

| | <u>General Fund</u> | <u>Bookstore Fund</u> |
|--|-------------------------|---------------------------|
| June 30, 2008 Annual Financial and Budget Report: (CCFS-311) Fund Balance | \$ 5,508,084 | \$ 1,285,260 |
| Adjustments to Reconcile Ending Fund Balance: | | |
| Overstatement of sales revenue | | (273,918) |
| Understatement of dividends receivable | 438,279 | |
| Understatement of accrued payroll benefits | (265,900) | |
| Understatement of Cash in County Treasury | 360,808 | |
| Overstatement of apportionment revenue | <u>(1,808,627)</u> | |
| June 30, 2008 Audited Fund Balance | <u>\$ 4,232,644</u> | <u>\$ 1,011,342</u> |

There were no audit adjustments proposed to any other funds of the District.

See accompanying notes to
supplemental information.

SOLANO COMMUNITY COLLEGE DISTRICT

NOTES TO SUPPLEMENTAL INFORMATION

1. PURPOSE OF SCHEDULES

A - Schedule of Federal Financial Awards

OMB Circular A-133 requires a disclosure of the financial activities of all federally funded programs. To comply with A-133 and state requirements, this schedule was prepared by the District. Differences exist between the revenues shown on the schedule and the basic financial statements for the following reasons:

- Various program revenues are recorded in the current year for prior year claims, related expenditures were incurred in prior years.
- Amounts reported as revenue may not represent final claim amounts, due to the timing of filing the final claims, and the closing of the District's records.

B - Schedule of Workload Measures for State General Apportionment

Full-time equivalent students is a measurement of the number of students 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 are made to community college districts. This schedule provides information regarding the attendance of students based on various methods of accumulating attendance data.

C - Reconciliation of Annual Financial and Budget Report (CCFS-311) with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the CCFS-311 to the audited basic financial statements.

**INDEPENDENT AUDITOR'S REPORT
ON STATE COMPLIANCE REQUIREMENTS**

Audit Committee
Solano Community College District
Fairfield, California

We have audited the basic financial statements of Solano Community College District for the year ended June 30, 2008, and have issued our report thereon dated May 15, 2009.

Our audit was made in accordance with auditing standards generally accepted in the United States of America and the standards for financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our audit referred to above, we selected and tested transactions and records to determine the District's compliance with the following state laws and regulations in accordance with Section 400 of the Chancellor's Office's *California Community Colleges Contracted District Audit Manual* (CDAM):

General Directives

Management Information System Implementation – State General Apportionment

Administration

Apportionments – Apportionment for Instructional Service Agreements/Contracts
Apportionments – Residency Determination For Credit Courses
Apportionments – Concurrent Enrollment of K-12 Students In Community College Credit Courses
Apportionments – Enrollment Fee
Apportionments – Students Actively Enrolled
Fiscal Operations – Salaries of Classroom Instructors (50 Percent Law)
Fiscal Operations – Gann Limit
Open Enrollment
Student Fees – Instructional Materials Fees and Health Fees

Student Services

Uses of Matriculation Funds
CalWorks – Use of State and Federal TANF Funding

Facilities

Scheduled Maintenance Program

**INDEPENDENT AUDITOR'S REPORT
ON STATE COMPLIANCE REQUIREMENTS**

(Continued)

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

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

In our opinion, the Solano Community College District complied, in all material respects with the aforementioned requirements, except as described in the Schedule of Audit Findings and Questioned Costs section of this report, for the year ended June 30, 2008.

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

Perry-Smith LLP

Sacramento, California
May 15, 2009

INDEPENDENT AUDITOR'S 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

Audit Committee
Solano Community College District
Fairfield, California

We have audited the basic financial statements of Solano Community College District as of and for the year ended June 30, 2008, and have issued our report thereon dated May 15, 2009. 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 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 Solano Community College District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Solano Community College District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider deficiency number 2 in the Schedule of Audit Findings and Questioned Costs to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control. We consider deficiency numbers 1 and 5 in the Schedule of Audit Findings and Questioned Costs to be material weaknesses.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. Solano Community College District's written responses to the significant deficiency and material weaknesses identified above have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**INDEPENDENT AUDITOR'S 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**

(Continued)

Compliance and Other Matters

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

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

Perry-Smith LLP

Sacramento, California
May 15, 2009

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Audit Committee
Solano Community College District
Fairfield, California

Compliance

We have audited the compliance of Solano Community College District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. Solano Community College District's major federal programs are identified in the accompanying schedule of federal financial awards. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Solano Community College District's management. Our responsibility is to express an opinion on Solano 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 Solano 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 on Solano Community College District's compliance with those requirements.

In our opinion, Solano Community College District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

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

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

(Continued)

Internal Control Over Compliance (Continued)

A control deficiency in the District's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

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

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

Perry-Smith LLP

Sacramento, California
May 15, 2009

FINDINGS AND RECOMMENDATIONS

SOLANO COMMUNITY COLLEGE DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

June 30, 2008

FINANCIAL STATEMENTS

Type of auditor's report issued: Unqualified

Internal control over financial reporting:
Material weakness(es) identified? X Yes No
Significant deficiency(ies) identified not considered
to be material weakness(es)? X Yes None reported

Noncompliance material to financial statements
noted? Yes X No

FEDERAL AWARDS

Internal control over major programs:
Material weakness(es) identified? Yes X No
Significant deficiency(ies) identified not considered
to be material weakness(es)? Yes X None reported

Type of auditor's report issued on compliance for
major programs: Unqualified

Any audit findings disclosed that are required to be
reported in accordance with section 510(a) of
Circular A-133? Yes X No

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|------------------------|---|
| 84.003, 84.064, 84.007 | Student Financial Aid Cluster |

Dollar threshold used to distinguish between Type A
and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X Yes No

STATE AWARDS

Internal control over state programs:

Material weakness identified X Yes No

Significant deficiency(ies) identified
not considered as material
weakness Yes X No

Type of auditor's report issued
on compliance for state
programs: Qualified

SOLANO COMMUNITY COLLEGE DISTRICT
SUMMARY OF FINDINGS AND RECOMMENDATIONS

June 30, 2008

1. MATERIAL WEAKNESS – INTERNAL CONTROLS

Criteria

District management is responsible for the design and operation of internal controls over financial reporting. A control deficiency exists when the design or operations of a control does not allow management or employees, in the normal course of performing the assigned functions, to prevent or detect financial statement misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that, even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affect the entity's ability to authorize, initiate, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's annual or interim financial statements that is more than inconsequential will not be prevented or detected.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected.

Condition

ACH Transfers

ACH transfers from the District's clearing account to the County Treasury were not performed timely. An ACH transfer from the clearing account to the County Treasury was made on January 14, 2008, approximately two months after funds had been deposited in the clearing account. The timing of this transaction led to the accumulation of \$135,306 in the clearing account. Further, registration fees from September 2007 through April 2008 were not cleared to the County Treasury until June 16, 2008, totaling \$2,706,422.

Capital Assets

The District was unable to provide a listing of all capital assets owned as of June 30, 2008. The District does not have a process to track and maintain an inventory of capital assets. Currently, there is no established method for Purchasing to alert Fiscal Services when new capital assets are acquired.

Financial Reporting

The District did not prepare the GASB 35 conversion journal entries. Further, the District was unable to provide full-accrual financial statement prior to the start of the audit.

SOLANO COMMUNITY COLLEGE DISTRICT
SUMMARY OF FINDINGS AND RECOMMENDATIONS
(Continued)
June 30, 2008

1. MATERIAL WEAKNESS – INTERNAL CONTROLS (Continued)

Effect

The potential exists for an error to occur and remain undetected.

Cause

District management did not design nor operate the system of internal controls over ACH transfers, capital assets or financial reporting in a manner that would prevent or detect financial statement misstatements on a timely basis.

District personnel have not been cross trained in the accounting of capital assets or financial reporting.

Fiscal Impact

The potential fiscal impact could be the understatement or overstatement of account balances. We were able to determine that all ACH transfers were correctly posted. In addition, the capital asset records have been reconciled and are properly reflected in the financial statements. Finally, the conversion entries were completed in accordance with GASB 35 and the financial statements have been prepared on the full accrual basis.

Recommendation

The District should complete ACH transfers to the County Treasury promptly after each deposit is posted to the clearing account.

The District should implement procedures requiring communications with Fiscal Services regarding the purchase of capital assets. Further, Fiscal Services should implement procedures to maintain a listing of all capital assets owned by the District. Procedures should be implemented to routinely monitor and substantiate the existence of recorded capital assets.

The District should seek training opportunities to ensure personnel have the requisite expertise to complete the District's financial reporting responsibilities.

Corrective Action Plan

ACH Transfers

ACH transfers from the District's clearing account to the County Treasury are performed at least weekly with the new process and procedures in place at this time. All deposits are recorded in the general ledger as they feed to the finance system, reconciled to the bank deposits daily as they are received, and transferred at least weekly to the County Treasurer.

SOLANO COMMUNITY COLLEGE DISTRICT
SUMMARY OF FINDINGS AND RECOMMENDATIONS
(Continued)
June 30, 2008

1. MATERIAL WEAKNESS – INTERNAL CONTROLS (Continued)

Corrective Action Plan (Continued)

Capital Assets

The District is in the process of implementing the Fixed Asset module in the new software system. This will allow the purchasing, receiving and fixed asset modules to communicate and update as required.

Financial Reporting

In previous years, the District has hired a consultant to finish the financial statements; this year there was a commitment to attempt to complete the GASB 35 conversion journal entries without this assistance. The District experienced a change in personnel prior to the audit, and was unable to complete this task. The District contracted with the audit firm for additional assistance in completing the GASB 35 conversion. The District is seeking additional training for current staff as recommended by the audit firm.

2. SIGNIFICANT DEFICIENCIES – INTERNAL CONTROLS

Criteria

District management is responsible for the design and operation of internal controls over financial reporting. A control deficiency exists when the design or operations of a control does not allow management or employees, in the normal course of performing the assigned functions, to prevent or detect financial statement misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that, even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affect the entity's ability to authorize, initiate, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's annual or interim financial statements that is more than inconsequential will not be prevented or detected.

Condition

Bank Reconciliations

The District was unable to provide reconciliation for Cash in County Treasury or bank clearing accounts to begin our audit. The beginning cash balances for 2007-2008 fiscal year could not be reconciled to the County Treasury balance.

SOLANO COMMUNITY COLLEGE DISTRICT
SUMMARY OF FINDINGS AND RECOMMENDATIONS
(Continued)
June 30, 2008

2. SIGNIFICANT DEFICIENCIES – INTERNAL CONTROLS(Continued)

Condition (Continued)

Cash Receipts – Bookstore

Segregation of duties at the Bookstore is inadequate regarding cash receipts. The head cashier creates the cash count sheets, the Daily Sales Recap, and inputs the total sales for the day into a spreadsheet. Fiscal Services uses this information to post activity to the general ledger.

Cash at the Bookstore is not counted in dual custody.

The Bookstore sales report summary is not reconciled to the Accounting Clerk's report summary. The Online Sales Daily Sales Recaps are not totaled with the Bookstore Daily Sales Recap by Fiscal Services. Further, these reports are not reconciled to the spreadsheet created by the Bookstore combining two recap reports. The spreadsheet is used to post general ledger entries by Fiscal Services. However, Fiscal Services is not aware what information is totaled on the spreadsheet.

Cash Disbursements – Bookstore

There is no indication of review of vendor payments related to Bookstore transactions. The Vendor Payment Sheet used to indicate proper management authorization, support for receipt of goods, and review for the appropriateness of budget codes and mathematical accuracy, is not being signed.

Journal Entries

Several journal entries were both approved and entered into the general ledger by the same person. Further, journal entries are not posted to the general ledger in a timely manner.

Cash Receipts – District Office

The District did not retain supporting documentation for cash receipts collected at the District Office. The District was not able to provide support for a deposit permit totaling \$135,306. The deposit should have included support for 18 items; however, only two items were located to support. Further, detailed in the Cashier's Summary, one deposit for \$160.63 was not found in the general ledger.

Effect

The potential exists for an error to occur and remain undetected.

SOLANO COMMUNITY COLLEGE DISTRICT
SUMMARY OF FINDINGS AND RECOMMENDATIONS
(Continued)
June 30, 2008

2. SIGNIFICANT DEFICIENCIES – INTERNAL CONTROLS(Continued)

Cause

The District does not have controls in place to ensure the proper preparation and review of bank reconciliations for the revolving bank accounts on a monthly basis in a timely manner.

The District does not have appropriate communication or controls in place between the Bookstore and Fiscal Services and segregation of duties in place to reconcile the activity that is posted into the general ledger.

There are no internal controls in place at the District to reinforce segregation of duties in regards to journal entry posting.

The District does not have controls in place to ensure all transactions have taken place and supporting documents are maintained appropriately for accounts receivable.

Fiscal Impact

The potential fiscal impact could be the understatement or overstatement of cash.

Recommendation

The District should implement procedures to ensure all bank and county Treasury accounts are reconciled to the general ledger on a monthly basis. To ensure proper segregation of duties, all reconciliations should be signed and dated by both the preparer and reviewer.

The District should implement procedures to ensure proper segregation of duties at the Bookstore. Further, procedures requiring reconciliation of the Bookstore Daily Sales Recap and Online Daily Sales Recap to the reconciliation prepared by the Bookstore should be implemented. Fiscal Services employees must receive training on the Bookstore's cash receipts process. The District should ensure there are clear lines of communication between the two departments and job responsibilities are clearly communicated to the employees.

District personnel should initial documents after review and approval of the transaction as evidence that key controls are in place, and operating effectively.

The District should implement appropriate procedures to ensure all transactions are promptly posted to the general ledger. Further, journal entries should be reviewed and approved by an individual independent of the posting of the journal entry.

The District should implement procedures to ensure all supporting documentation is maintained. General ledger transactions should be reviewed and deposit totaled should be reconciled to bank statements and the general ledger to ensure all items have been recorded.

SOLANO COMMUNITY COLLEGE DISTRICT
SUMMARY OF FINDINGS AND RECOMMENDATIONS
(Continued)
June 30, 2008

2. SIGNIFICANT DEFICIENCIES – INTERNAL CONTROLS (Continued)

Corrective Action Plan

Bank Reconciliations

The District has filled the position that was vacant which was responsible for the reconciliation for the bank clearing accounts. The reconciliations are done monthly and reviewed by the Director of Fiscal Services. The Director of Fiscal Services is currently performing the Cash in County Treasury reconciliation on a monthly basis, and it is being reviewed and signed by the Accountant in Fiscal Services.

Cash Receipts – Bookstore

The vacant position in the bookstore has been filled to allow for the segregation of duties at the Bookstore regarding cash receipts. The cash at the Bookstore is now counted in dual custody, with either a second employee or a police officer along with the closing supervisor.

Journal Entries

All journal entries prepared by an individual other than the District Accountant and Director of Fiscal Services, must be approved by the Director of Fiscal Services or the District Accountant prior to being posted into the general ledger system. The two approving positions, District Accountant and Director of Fiscal Services, approve each others work. The Banner system has electronic approvals, therefore, the documents are electronically approved.

Cash Receipts – District Office

All deposits are made at least weekly, and reviewed and approved by the Director of Fiscal Services. Backup documentation is now kept with the actual deposit in the Fiscal Services office.

3. INTERNAL CONTROLS – CASH DISBURSEMENTS

Criteria

Safeguarding of Assets

Condition

There was no evidence that someone reviewed the invoice, purchase order and receiving report documents before posting a payment into the Banner System.

Effect

There exists a risk of the misappropriation of assets.

SOLANO COMMUNITY COLLEGE DISTRICT

SUMMARY OF FINDINGS AND RECOMMENDATIONS

(Continued)

June 30, 2008

3. INTERNAL CONTROLS – CASH DISBURSEMENTS (Continued)

Cause

The District does not have controls in place to ensure the proper review of a transaction prior to entry into the accounting system.

Fiscal Impact

None.

Recommendation

The District should implement appropriate procedures to ensure that all documents are matched and reviewed before the payment is entered into the system.

Corrective Action Plan

The District is using the receiving match process in the Banner system. This requires the warehouse to receive the merchandise into the system prior to the vendor receiving payment. All requisitions are reviewed by either the Accountant or the Director of Fiscal Services prior to the purchasing agent receiving the requisition. The purchasing agent then reviews the contents of the requisition prior to it becoming a purchase order. The warehouse uses the purchase order to receive the merchandise, allowing the accounts payable clerk to pay the vendor. If the merchandise has not been received by the warehouse, the vendor can not be paid.

4. INTERNAL CONTROLS - INVENTORY

Criteria

Safeguarding of Assets

Condition

During the inventory observation, several discrepancies were noted between our physical inventory counts and the District's physical inventory counts.

Effect

Inventory is understated.

Cause

The District did not perform accurate physical inventory counts.

SOLANO COMMUNITY COLLEGE DISTRICT
SUMMARY OF FINDINGS AND RECOMMENDATIONS
(Continued)
June 30, 2008

4. INTERNAL CONTROLS – INVENTORY (Continued)

Fiscal Impact

The extrapolated effect of this finding is an understatement of inventory in the amount of \$39,272. This extrapolated effect includes the actual error of \$2,562 and the estimated error of \$36,710.

Recommendation

The District should implement appropriate control procedures over physical inventory counts.

Corrective Action Plan

The District is planning to have an outside agency conduct a physical inventory count during the summer of 2009. This will allow the District to accurately update the inventory counts in the system, and use the Banner assets tracking system to maintain the count.

5. MATERIAL WEAKNESS – STATE COMPLIANCE – APPORTIONMENT ATTENDANCE REPORT (CCFS-320)

Criteria

For physical education courses, not more than ten percent of the enrollment claimed for apportionment for each course section may consist of special part-time or full-time students. The District may not receive state apportionment funding for special part-time or full-time students enrolled in physical education courses in excess of five percent of the District's total reported FTES enrollment of special part-time or full-time students.

For summer daily census FTES, any advancements taken in the prior fiscal year must be excluded from FTES in the current fiscal year.

FTES report for Student Contact Hours of Weekly Census Procedures Courses must be supported with proper documentation.

Condition

There were errors in the calculations in reporting FTES for physical education courses in 2005-06, 2006-07 and 2007-08.

Some of the summer FTES for summer daily courses were claimed for apportionment in more than one year for 2006-07 and 2007-08.

In 2006-07 the Student Contact hours of Weekly Census Procedure Courses was overstated.

SOLANO COMMUNITY COLLEGE DISTRICT

SUMMARY OF FINDINGS AND RECOMMENDATIONS

(Continued)

June 30, 2008

5. MATERIAL WEAKNESS – STATE COMPLIANCE – APPORTIONMENT ATTENDANCE REPORT (CCFS-320) (Continued)

Effect

For special part-time and full-time students in physical education courses, there is an overstatement of 41.17 FTES.

Summer FTES are overstated by 324.76.

Student contact hours for Weekly Census Procedure courses was overstated by 130.41 FTES for 2006-07.

Cause

For physical education courses, projected FTES was used instead of Actual FTES. Non-residents were improperly excluded from the calculation of total apportionment generated by all special part-time or full-time students. TOPS code 835.5 was improperly excluded from the calculation of total apportionment claimed for special part-time or full-time students.

No one was properly tracking the advancements claimed in one fiscal year to make sure they were properly removed in the subsequent fiscal year.

A clerical error was the cause of the misstatement in the 2006-07 student contact hours.

Fiscal Impact

For 2005-06 FTES are overstated by 2.53 approximating \$9,419 in apportionment funding. In 2006-07 FTES were overstated by 474.33 approximating \$1,955,636 in apportionment funding. In 2007-08, FTES are understated by 35.82 approximating \$156,428 in apportionment funding. The total is an overstatement of 441.04 FTES approximating \$1,808,627.

Recommendation

The District needs to implement proper oversight controls so that after the Apportionment Attendance Report (CCFS-320) is prepared, a quality control review is completed by reviewing the supporting documentation used to prepare the report. All documentation should then be signed off by the preparer and reviewer to ensure that the FTES reported are accurate.

SOLANO COMMUNITY COLLEGE DISTRICT

SUMMARY OF FINDINGS AND RECOMMENDATIONS

(Continued)

June 30, 2008

5. MATERIAL WEAKNESS – STATE COMPLIANCE – APPORTIONMENT ATTENDANCE REPORT (CCFS-320) (Continued)

Corrective Action Plan

The District has hired two consultants, who have several years of experience and proven expertise in accurate attendance accounting, to train staff on attendance accounting and assist in the preparation of the 2008/09 CCFS-320 report. These consultants along with current staff of the District are conducting trainings for all staff who are involved in the attendance accounting process, so everyone involved has a clear and consistent understanding of how to determine contact hours/FTES. The District is working with its information Technology Department to develop reports that will provide the required information to clearly calculate and audit the attendance records. The CCFS-320 report is now reviewed and signed by the Vice-President of Student Services, the Vice-President of Student Affairs and the Director of Fiscal Services prior to being reviewed and certified by the Superintendent/President.

6. STATE COMPLIANCE – MATRICULATION

Criteria

Districts are required to use local funds to support at least 75 percent of the credit matriculation activities and 50 percent of non-credit matriculation activities with the remaining expenditures claimable against the state credit matriculation allocation.

Condition

The District charged expenditures to the Matriculation Program which was not activities claimable against the Program and transferred non-credit related expenditures to credit classification in order to meet State match requirements.

Effect

The District is not in compliance with Matriculation Program requirements.

Cause

The District misinterpreted the Education Code regarding the appropriate use of matriculation funds.

Fiscal Impact

The extrapolated fiscal impact of the finding is \$201,845 and the District match is understated by 10.88 percent and State Allocation is overstated by 10.88 percent.

SOLANO COMMUNITY COLLEGE DISTRICT
SUMMARY OF FINDINGS AND RECOMMENDATIONS
(Continued)
June 30, 2008

6. STATE COMPLIANCE – MATRICULATION (Continued)

Recommendation

The District should review all matriculation related expenditures to ensure they meet one of the ten allowable classifications and are properly classified as credit or non-credit.

Corrective Action Plan

The District will review all matriculation related expenditures to ensure they meet one of the ten allowable classifications and are properly classified as credit or non-credit.

**STATUS OF PRIOR YEAR
FINDINGS AND RECOMMENDATIONS**

SOLANO COMMUNITY COLLEGE DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

For the Year Ended June 30, 2008

| Finding | Recommendation | Current Status | District Explanation if Not Fully Implemented |
|---|---|------------------|---|
| <p>1. Gann Limit The number of full-time equivalent students used in the GANN Limit worksheet was incorrect. The District used FTES based on the Annual Apportionment report, instead of the Second Period Apportionment Report.</p> | <p>The District should revise the GANN Limit calculation. Further, the District should ensure procedures are performed to review the GANN Limit calculation prior to submission for approval by the Governing Board.</p> | Implemented. | |
| <p>2. Bank Reconciliations</p> <ul style="list-style-type: none"> • Bank reconciliations for fiduciary funds and associated student body accounts have no indication of being reviewed. • The bank reconciliation for the bookstore did not result in the required adjustments being made to the cash balance recorded in the general ledger. • The Cash in Local Agency Investment Fund is all recorded in the bookstore fund; however, a portion of the cash balance should be reflected in the associated student body accounts. | <ul style="list-style-type: none"> • All bank reconciliations should be closely reviewed on a monthly basis and all reconciling items be resolved in a timely manner. Furthermore, indication of this review process should be clearly marked on the reconciliation. • The District should ensure that all accounting staff members are sufficiently trained to properly complete bank reconciliations. | Not implemented. | See current year findings. |
| <p>3. Parking Revenue Deposits The District was unable to reconcile cash collected from the campus parking meters to the actual bank deposits on four occasions. After further investigation, it was determined that each of the deposits was picked up by the armored courier services for delivery to the bank. However, the District is still unable to reconcile the cash collected for two of the pick ups to the actual deposit in the bank.</p> | <p>The District should ensure bank reconciliations are performed in a timely manner. Each deposit pick up should be identified and reconciled with the bank deposits each month.</p> | Implemented. | |