

SOLANO COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENTS

WITH SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED JUNE 30, 2006

AND

INDEPENDENT AUDITOR'S REPORT

SOLANO COMMUNITY COLLEGE DISTRICT

**FINANCIAL STATEMENTS
WITH SUPPLEMENTAL INFORMATION**

For the Year Ended June 30, 2006

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SOLANO COMMUNITY COLLEGE DISTRICT

**FINANCIAL STATEMENTS
WITH SUPPLEMENTAL INFORMATION**

For the Year Ended June 30, 2006

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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, 2006, 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, 2006, 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 January 30, 2007 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 13 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
January 30, 2007

SOLANO COMMUNITY COLLEGE DISTRICT
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

The following report reflects on the financial condition of Solano Community College District for the fiscal year ended June 30, 2006. It is provided in order to enhance the information in the financial audit, and should be reviewed in concert with that report.

Description of Basic Financial Statements

Solano Community College District (the District) financial statements are prepared in conformity with generally accepted accounting principles and necessarily includes amounts based upon estimates and judgments. The Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and Statement of Cash Flows are included along with Notes to Financial Statements to clarify unique accounting policies and financial information.

The Statement of Net Assets provides information on all Solano Community College District assets and liabilities, with the difference reported as Net Assets. Net Assets may be an indicator of the overall District financial changes across years. The statement of Revenues, Expenses and Changes in Net Assets presents information showing total revenues versus total expenses and the resulting affect on Net Assets.

Perry Smith ^{LLP}, Certified Public Accountants have performed an independent audit of our financial statements in accordance with generally accepted auditing standards. Their opinion is included in the Financial Section of this report.

Financial /Enrollment Highlights, FYE June 30, 2006
Compared to FYE June 30, 2005

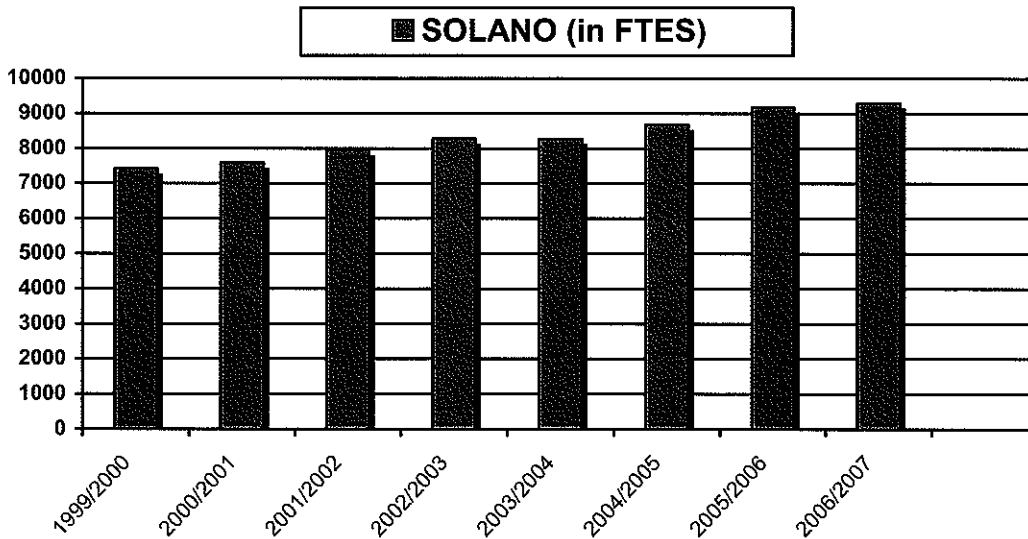
- Total operating revenues were \$15.3 million, a decrease of 2.5% or \$387,140. This decrease is largely due to a reduction in new grants and contracts awarded to the District.
- Total non-operating revenues were \$45.2 million, an increase of 24.2% or \$8.8 million. This increase is the net effect of an increase in Bond and Interest redemption tax collections used to pay off Measure "G" Bond proceeds offset by a decrease in investment income, interest expense and other non-operating revenues.
- Total operating expenses were \$54.0 million, an increase of 3.9% or \$2,009,685. The majority of the differences are represented by a decrease in depreciation expense, offset by increases in salaries, benefits, supplies, other services and utilities expenses.

SOLANO COMMUNITY COLLEGE DISTRICT
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

Fiscal year 2005-06 reported enrollment growth maximized receipt of State funds through the acceleration of three hundred fifty six (356) FTES from summer. This action provided a one-time increase in base apportionment funding in the 2005-06 fiscal year and has no effect on 2006-07 or future year revenues. This one-time base apportionment income was committed to the Enterprise Resource Planning project. A conservative 1.23% growth target or 113 FTES is projected for fiscal 2006-07.

FULL-TIME EQUIVALENT STUDENT (FTES) ENROLLMENTS

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	-.1%
2004-2005	8,681	4.9%
2005-2006	9,182	5.8%
2006-2007 (Projected)	9,295	----



SOLANO COMMUNITYCOLLEGE DISTRICT
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

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 method 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. Overall, the assets of the District increased \$7.2 million or about 39.2% over the previous year.

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Current assets				
Cash and cash equivalents	\$ 6,242,142	\$ 5,525,052	\$ 717,090	13.0%
Receivables	3,830,586	5,004,774	(1,174,188)	(23.5%)
Inventory, prepaid expenses and other	<u>1,426,417</u>	<u>1,152,016</u>	<u>274,401</u>	<u>23.8%</u>
Total current assets	11,499,145	11,681,842	(182,697)	(1.6%)
Non-current assets				
Net capital assets and restricted funding	<u>118,584,252</u>	<u>111,508,500</u>	<u>7,075,752</u>	<u>6.3%</u>
Total assets	<u>\$ 130,083,397</u>	<u>\$ 123,190,342</u>	<u>\$ 6,893,055</u>	<u>5.6%</u>
Current liabilities				
Accounts payable and accrued payroll	\$ 5,714,795	\$ 4,912,026	\$ 802,769	16.3%
Deferred revenues	2,266,851	2,101,761	165,090	7.9%
Bonds and notes payable - current portion	900,049	838,902	61,147	7.3%
Other long-term liabilities - current portion	<u>3,838,600</u>	<u>3,162,661</u>	<u>675,939</u>	<u>21.4%</u>
Total current liabilities	12,720,295	11,015,350	1,704,945	15.5%
Non-current liabilities				
Long-term liabilities	<u>91,936,207</u>	<u>93,905,993</u>	<u>(1,969,786)</u>	<u>(2.1%)</u>
Total liabilities	104,656,502	104,921,343	(264,841)	(0.3%)
Net assets				
Investment in capital assets, net of debt	18,201,588	13,475,982	4,725,606	35.1%
Restricted	3,415,106	1,920,156	1,494,950	77.9%
Unrestricted	<u>3,810,201</u>	<u>2,872,861</u>	<u>937,340</u>	<u>32.6%</u>
Total net assets	<u>\$ 25,426,895</u>	<u>\$ 18,268,999</u>	<u>\$ 7,157,896</u>	<u>39.2%</u>
Total net assets and liabilities	<u>\$ 130,083,397</u>	<u>\$ 123,190,342</u>	<u>\$ 6,893,055</u>	<u>5.6%</u>

The components of cash and cash equivalents are primarily the District's contingency balances for multiple reserves; the state-mandated 5%- reserve over "General Fund" expenditures, (\$2.3 million); for Other Post Employment Benefits (OPEB) held in trust (\$1.0 million); student center fee trust fund (\$0.5 million); bond proceeds and debt service fund repayment (\$0.4); Local Agency Investment Fund (\$0.6) 2005-06 College budget carry-overs (\$ 1.9 million); and, the net cash effect of non-cash assets, receivables, and liabilities. The primary component of the 2005-06 13.0% cash increase or \$0.7 million is the receipt of District declared dividends from the Northern California Community College Self Insurance Authority, which is now to start addressing the requirements of GASB 45 (OPEB).

SOLANO COMMUNITYCOLLEGE DISTRICT
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

Accounts receivable primarily represents federal, state and local funding owed to the District for capital and non-capital apportionments and grants. Federal and local receivables total \$0.8 million and mostly include grants and contracts. The total owed to the District by the state is approximately \$2.7 million. Apportionment deferral comprises \$2.0 million and the next largest receivable is Lottery at \$0.4 million. The remaining accounts receivable are made up of other state grants and contracts, student receivables, book vendor credits and miscellaneous items (\$0.3 million).

Inventories and prepaid items, \$0.8 million and \$0.6 million, respectively, represent bookstore merchandise-inventories, and prepayments for a number of unrestricted general fund expenses. The primary cause for the increase in this balance is the increased bookstore inventory and essential operational pre payments processed during the year.

Non-current, net capital assets and restricted funding primarily represent: 1) the District's original investment in land, site improvements, buildings and equipment, less the cost of accumulated depreciation, \$40.0 million, 2) unspent cash from the proceeds from the issuance of 2002 Measure "G" bonds, \$72.5 million, 3) the funds accumulated at the County Treasury for the redemption of bonds, \$5.2 million, 4) For 2005-06, the increase in capital assets was principally due to the construction work in progress with the larger Measure "G" Bond projects of the Vallejo Center and the Student Services Center.

Accounts payable and accrued payroll primarily represent year-end accruals for services and goods received by the District, during fiscal 2005-06, for which payment would not be made until 2006-07. \$1.7 million of the amount represents vendor invoices. Another \$2.8 million represents "retainage" on construction work that has been completed. The year-end accrual for payroll accounts for another \$1.2 million of the total. The 2005-06 year end balances are higher than 2004-05 primarily for the increase in construction-retainage liability, due to increased construction.

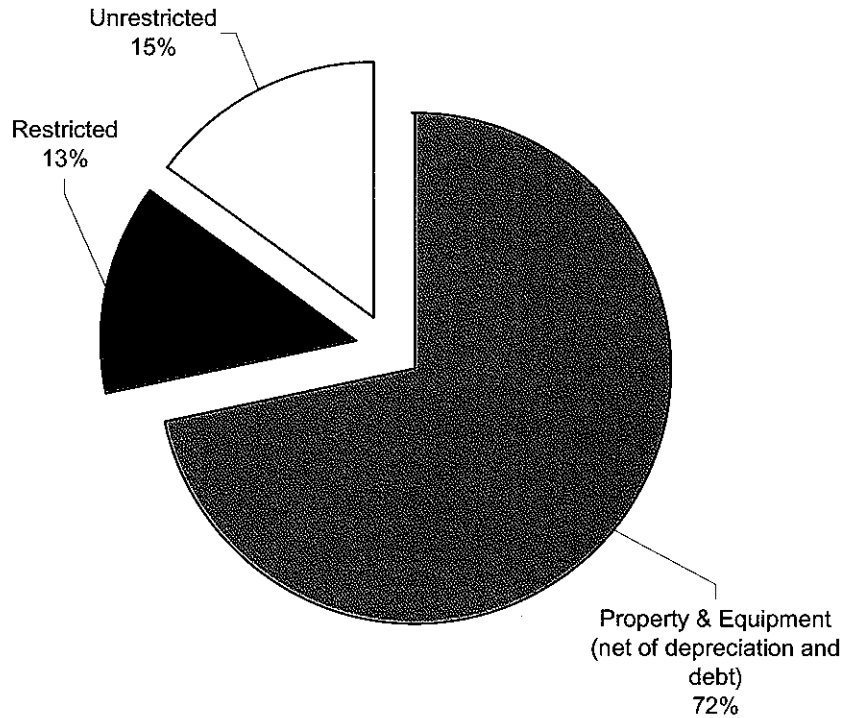
Deferred revenues represent prepayments made to the District for which services have yet to be rendered. \$1.3 million of this amount represents federal, state and local revenue for apportionment, grants and contracts whose terms and conditions extend beyond 2005-06 fiscal year. Another \$0.9 million represents student tuition, registration and other fees received during 2005-06, for fiscal year 2006-07 summer and fall terms. The 7.9% increase from 2004-05 to 2005-06 is primarily due to earlier student enrollments for summer and fall semesters.

The current liabilities primarily represents deferred bond premiums and amounts held in trust for the Measure "G" bonds (\$0.9 million). Other current liabilities are composed of current portions of bonds and notes to be paid during the 2006-07 fiscal year: 1) for the Student Body Center \$30,000, 2) long-term capitalized leases, \$208,236, 3) principal payment of the Measure "G" General Obligation Bond, \$2.6 million, 4) and the accumulated liability for accrued, employee-compensated absences, \$1.0 million. Each of these categories saw increases over 2004-05.

The District's non-current liabilities primarily consist of: 1) the long-term debt remaining on the 2002 Measure "G" bonds, \$77.7 million, 2) the accumulated liability for accrued, employee-compensated absences, \$1.0 million, 3) Student Body Center, \$57,200, 4) numerous capitalized lease obligations for the purchase of equipment throughout the District, \$0.8 million, retirement enhancement program, \$6.1 million, and deferred bond premiums, \$7.1 million. Each of these categories saw decreases over 2004-05.

**SOLANO COMMUNITY COLLEGE DISTRICT
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2006**

Net Assets - June 30, 2006



The largest component of the District's "net assets" is the investment in capital assets (net of related debt), \$18.2 million. This represents the District's initial cost for property, plant, and equipment, less accumulated depreciation, less any remaining debt used for the initial purchase. The next largest component, at \$3.8 million, is the District's "unrestricted assets. The remaining \$3.4 million in "restricted assets" represents assets whose use is earmarked for specific purposes, such as grants and construction projects. The primary component of the 2005-06 increase in capital assets is a direct result of the Measure "G" bonds.

SOLANO COMMUNITY COLLEGE DISTRICT
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets (see next page) presents the financial results of the District's "operations", as well as its "non-operating activities." The distinction between these two activities involves the concepts of "exchange" and "non-exchange." An operating activity is one in which a "direct payment"/exchange is made (by one party to another) for the receipt of specified goods or services, i.e., the payor is the one receiving benefit. As an example, tuition fees, paid by a student, is an "exchange" for instructional services. Likewise, grant and contract-funding received (on the condition that the District provides specific/contracted services), is also an "exchange." Both are therefore recorded as "operating revenue". The receipt of state apportionments and property taxes, however, do not include this "exchange" relationship between "payment" and the "receipt of benefit". Such revenues are deemed "non-exchange" transactions, and are therefore treated as "non-operating" activities.

Because the primary sources of funding, that support the District's instructional activities, comes from state apportionment, and local property taxes, the financial results of the District's "operations" will result in a net operating expense.

The primary components of "tuition and fees" are the \$26 per unit enrollment fee that is charged to all students registering for classes, and, the additional \$160 per unit fee that is charged to all non-resident students. The discrepancy between these fee-rates is due to the fact that resident student instruction is largely subsidized by local property taxes and state apportionment. Non-resident students must pay for the full cost of instruction. Respectively, these two revenue-streams account for \$3.1 million and \$187,135. Another \$172,997 is collected in the form of parking permits. The remainder comes from an assortment of miscellaneous student fees, for which there was a slight decrease of 1.5% in this category for 2005-06.

The largest component of the District's operating revenues is non-capital grants and contracts. The largest sub-component is federal grants totaling \$4.7 million, which includes \$4.3 million in student financial aid; \$4.3 million results from funding received from the state for categorical programs, such as DSP&S, EOP&S, Matriculation, etc.; and, included within local grants and contracts, \$0.7 million, are all of the college's contract-education services, as well as all other, miscellaneous service-revenues received by the District.

The revenue for auxiliary enterprises principally consists of revenue from the District's bookstore operation. Enterprise operations accounts for \$1.3 million for fiscal year 2005-06, with total auxiliary revenue increasing by 39.8% compared to the prior year.

SOLANO COMMUNITY COLLEGE DISTRICT
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

Statement of Revenues, Expenses & Changes in Net Assets

	<u>2006</u>	<u>Prior Year 2005</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Operating revenues				
Tuition and fees	\$ 4,200,944	\$ 4,263,713	\$ (62,769)	(1.5%)
Grants and contract, noncapital	9,776,833	10,474,563	(697,730)	(6.7%)
Auxiliary enterprises	1,312,178	938,819	373,359	39.8%
Total operating revenues	<u>15,289,955</u>	<u>15,677,095</u>	<u>(387,140)</u>	<u>(2.5%)</u>
Operating expenses				
Salaries	28,409,530	27,221,155	1,188,375	4.4%
Benefits	9,816,318	9,150,632	665,686	7.3%
Supplies, materials, and other expenses	13,377,351	12,809,229	568,122	4.4%
Utilities	1,310,682	1,233,418	77,264	6.3%
Depreciation	1,128,818	1,618,580	(489,762)	(30.3%)
Total operating expenses	<u>54,042,699</u>	<u>52,033,014</u>	<u>2,009,685</u>	<u>3.9%</u>
Loss from operations	<u>(38,752,744)</u>	<u>(36,355,919)</u>	<u>(2,396,825)</u>	<u>6.6%</u>
Nonoperating revenues				
State apportionments, noncapital	25,881,249	22,770,738	3,110,511	13.7%
Local property taxes	11,121,522	10,484,464	637,058	6.1%
State taxes and other revenue	8,103,713	1,228,450	6,875,263	559.7%
Investment income	2,979,515	7,635,974	(4,656,459)	(61.0%)
Interest Expense on capital asset-related debt, net	(2,818,063)	(5,777,848)	2,959,785	(51.2%)
Other nonoperating revenues (expenses)	(30,087)	85,265	(115,352)	(135.3%)
Total nonoperating revenues	<u>45,237,849</u>	<u>36,427,043</u>	<u>8,810,806</u>	<u>24.2%</u>
Net income before capital revenues	6,485,105	71,124	6,413,981	9018.0%
State and local revenue, grants and gifts (capital)	<u>672,791</u>	<u>544,495</u>	<u>128,296</u>	<u>23.6%</u>
Increase in net assets	7,157,896	615,619	6,542,277	1062.7%
Net assets - beginning of year	<u>18,268,999</u>	<u>17,653,380</u>	<u>615,619</u>	<u>3.5%</u>
Net assets - end of year	<u>\$ 25,426,895</u>	<u>\$ 18,268,999</u>	<u>\$ 7,157,896</u>	<u>39.2%</u>

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

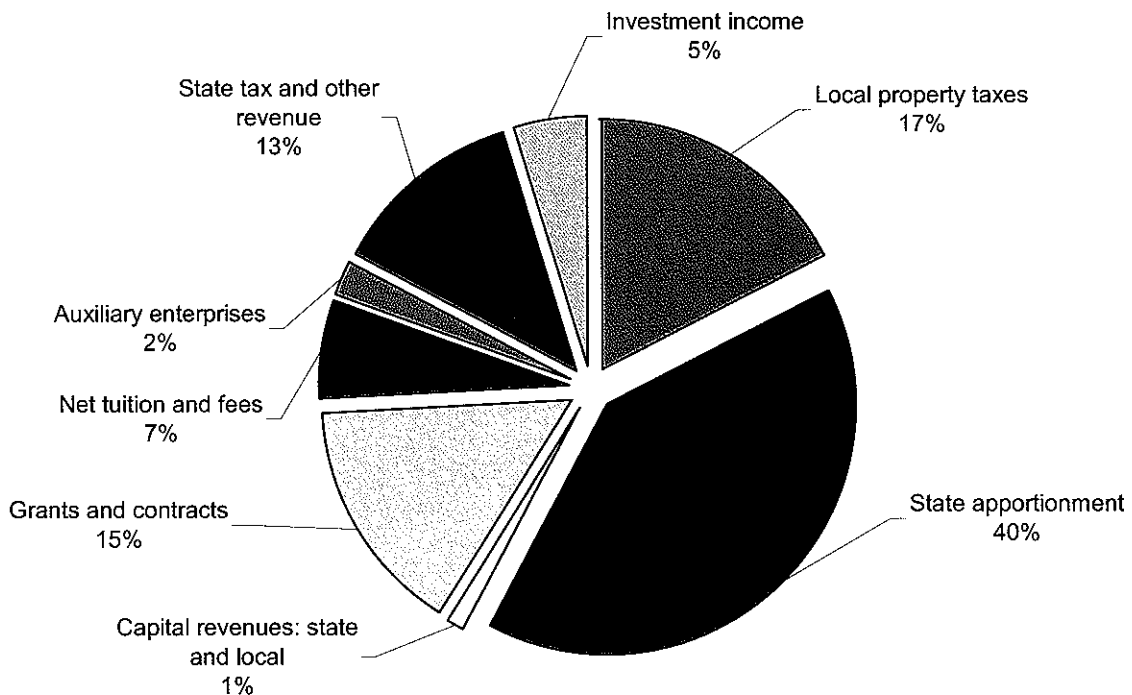
**SOLANO COMMUNITY COLLEGE DISTRICT
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2006**

The net investment income (non-capital) of \$3.0 million is primarily earned on investments designated for the funding of the District's liability for retiree health benefits and other funds held in the County Treasury during the fiscal year.

The principal components of "capital-revenues" are \$0.7 million in state apportionment, and local revenues, utilized for capital projects and deferred maintenance programs. The increase in revenue (over 2004-05) reflects increased capital project construction activity for the District during the 2005-06 fiscal year.

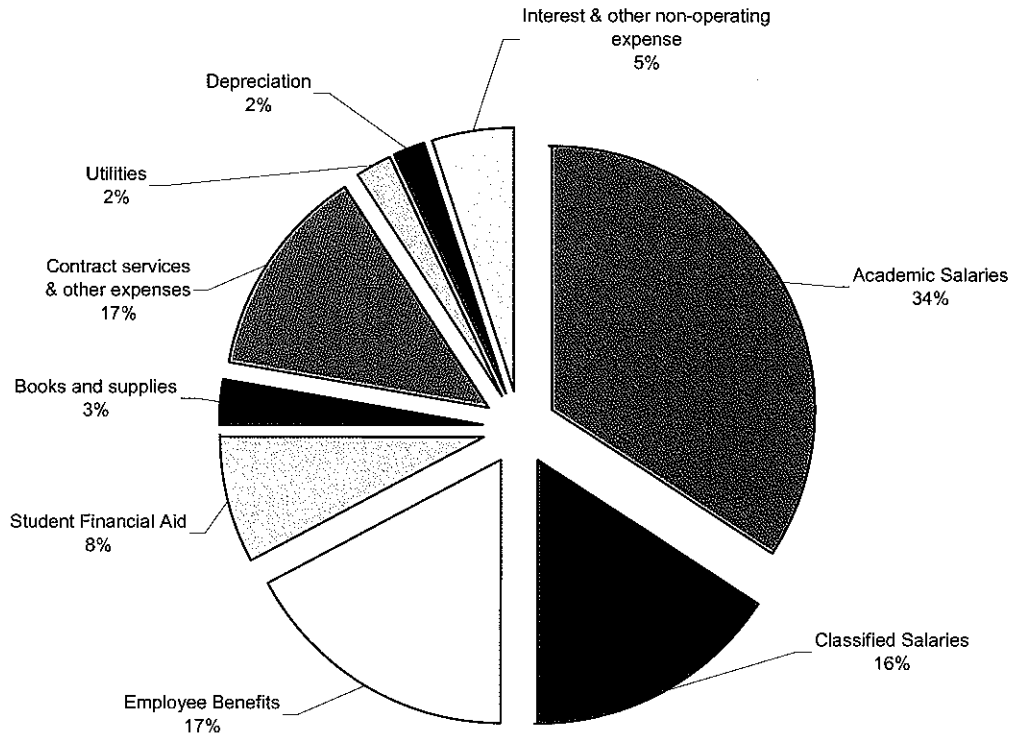
Overall, the net assets of the District increased \$7.2 million or 39.2% due to the receipt of bond interest redemption taxes, acceleration of enrollment reporting and the receipt of equalization funding.

Total Revenues - June 30, 2006



**SOLANO COMMUNITY COLLEGE DISTRICT
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2006**

Total Expenses - June 30, 2006

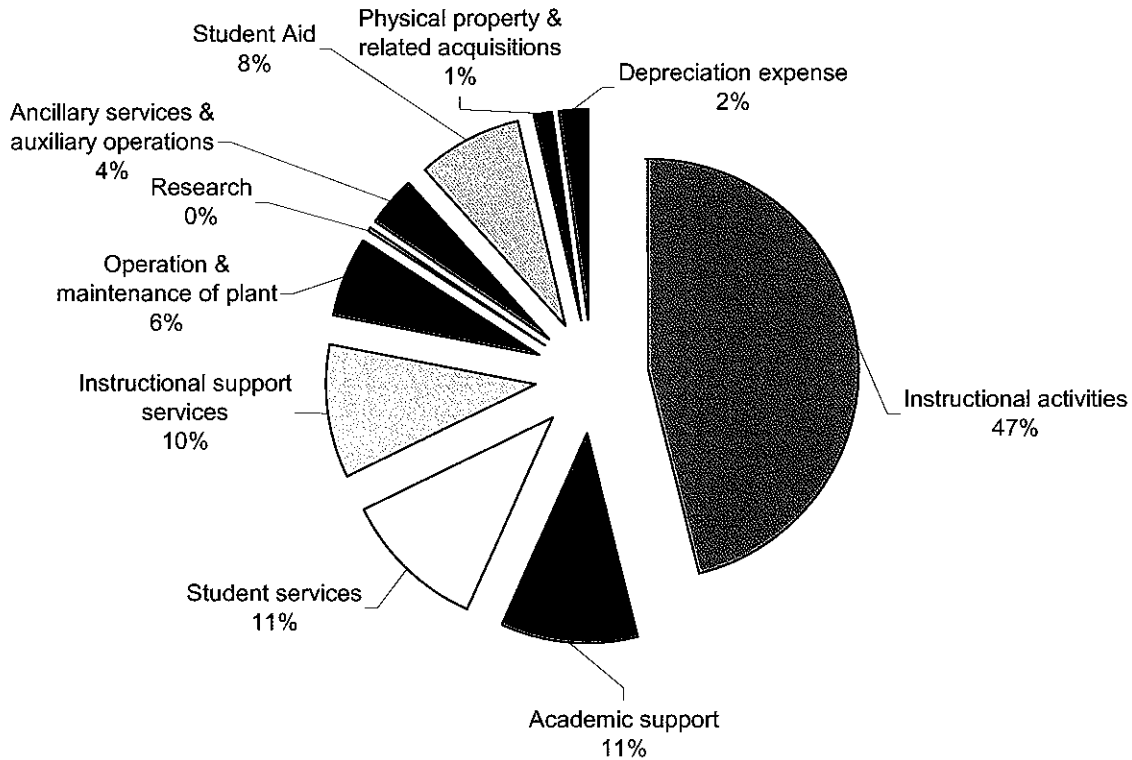


The largest component, 68% of the District's total expense (operating and non-operating) is the cost associated with salaries and benefits. In the District's primary operating fund, the Unrestricted General Fund, salaries and benefits account for 81% of fund expenditures. Payments to students which include direct financial aid accounted for 8% of District expense. Books, supplies, materials, and other expenses" account for an additional 16% of the total. The remainder of this expenditure-category includes insurance premiums, instructional contracts, facilities rental, equipment repair, and a host of other expenditures necessary to the operation of the District. Utilities, depreciation and debt principal and interest expenses make up the remaining 9% of total expenditures.

Overall, total operating expenses increased by 4% during 2005-06. This increase was principally due to the net effect of the negotiated salary and benefit increases for all employee groups, increase in supply cost, increase in utility expenditures as a direct result of the higher energy-cost increase seen nationwide and the offset of reduced depreciation.

**SOLANO COMMUNITY COLLEGE DISTRICT
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2006**

2005-06 Operating Expenses by Functional Classification



Operating Expense by Functional Classification

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Instructional activities	\$ 24,863,548	\$ 21,391,000	\$ 3,472,548	16.2%
Academic support	5,829,956	4,483,974	1,345,982	30.0%
Student services	5,924,450	4,237,461	1,686,989	39.8%
Instructional support services	5,517,926	5,746,829	(228,903)	(4.0%)
Operation & maintenance of plant	3,356,488	5,671,516	(2,315,028)	(40.8%)
Research	159,187	171,403	(12,216)	(7.1%)
Ancillary services & auxiliary operations	2,063,823	2,555,466	(491,643)	(19.2%)
Student Aid	4,391,135	4,513,190	(122,055)	(2.7%)
Physical property & related acquisitions	807,368	1,643,595	(836,227)	(50.9%)
Depreciation expense	1,128,818	1,618,580	(489,762)	(30.3%)
Total	<u>\$ 54,042,699</u>	<u>\$ 52,033,014</u>	<u>\$ 2,009,685</u>	<u>3.9%</u>

The Functional Expense chart incorporates all District funds appropriations for fiscal year 2005-06. The greatest expense in 2005-06 was in the area of instruction at 47%, academic support at 11%, and instructional support was 10%. These costs were accommodated by increases in non-capital apportionment revenue and categorical funding for part time faculty salary increase, which the District also received during this period.

SOLANO COMMUNITY COLLEGE DISTRICT
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The Student Services expense (11%) includes counseling and guidance services and expenses associated with a number of state and categorical programs to include, Matriculation, Disabled Student Services Program (DSP & S), Extended Opportunity Programs & Services (EOPS), Financial Aid Administration, and Veteran Services. The bulk of the ancillary services and auxiliary operations percentage (4%) encompasses the bookstore operation. Also included in this category are expenses for the contract education department, food service operation, parking operation, and student and co-curricular activities. The physical property category (1%) consists of a number of building improvements and alterations that took place throughout the District.

Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the "sources" and "uses" of cash during the year. The statement is divided into five parts:

- Cash flows from operating ("exchange") activities
- Cash flows from non-capital financing activities
- Cash flows from capital and related-financing activities.
- Cash flows from investing activities
- Reconciliation between beginning and ending cash

The ending cash balance matches the total of the District's current and non-current, cash and cash equivalents.

During the 2005-06 fiscal year, the District's net Capital Asset additions were \$15.0 million and primarily due to capital improvements associated with the Measure "G" bond program. More specifically, the Vallejo Center and the Student Services Center on the Solano campus are two of the three largest projects near completion. The District has also drawn down the balance of bond funds (\$44.5 million) for 2006-07 in anticipation of constructing the new Vacaville Center starting in fall 2007.

Economic Factors that will affect the Future

The District is dependent on the State of California for a majority of its revenue. State law and regulation further specifies the allowed uses of state revenue. The most important element of state funding is the Total General Apportionment calculation, which accounted for 88% of the District's 2005-06 primary "operating fund," the Unrestricted General Fund. Apportionment revenue is directly tied to reported enrollment, and since 1999-00, the District's FTES has increased, with the exception of a very small decrease in 2003-04. The decrease seen in 2003-04 was primarily due to the District's response to the 2003-04, state-wide reduction of funding for concurrently enrolled high school students in physical education courses.

To this point FTES numbers for 2006-07 are flat. Beginning spring semester, 2007, enrollment fees were reduced from \$26/unit to \$20/unit and it is hoped that this would help boost enrollment. Additionally, the opening of the new Vallejo center should attract more students. With signs that the state economy may be weakening and unemployment may be on the rise there is cause for some concern and more long-range planning around enrollment management.

SOLANO COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET ASSETS

June 30, 2006

ASSETS

Current assets:	
Cash and cash equivalents (Note 2)	\$ 6,242,142
Accounts receivable, net (Note 3)	3,830,586
Stores inventories	799,740
Prepaid expenses and other assets	<u>626,677</u>
Total current assets	<u>11,499,145</u>
Noncurrent assets:	
Restricted cash and cash equivalents (Note 2)	78,491,269
Capital assets, net (Note 4)	<u>40,092,983</u>
Total noncurrent assets	<u>118,584,252</u>
Total assets	<u>130,083,397</u>

LIABILITIES

Current liabilities:	
Accounts payable	4,493,806
Accrued payroll	1,220,989
Deferred revenue (Note 5)	2,266,851
Amounts held in trust	468,550
Deferred bond premium (Note 6)	431,499
Compensated absences payable (Note 6)	1,015,364
Long-term debt-current portion (Note 6)	<u>2,823,236</u>
Total current liabilities	<u>12,720,295</u>
Noncurrent liabilities:	
Long-term debt-noncurrent portion (Note 6)	84,744,554
Deferred bond premium (Note 6)	<u>7,191,653</u>
Total noncurrent liabilities	<u>91,936,207</u>
Total liabilities	<u>104,656,502</u>

Commitments and contingent liabilities (Note 11)

NET ASSETS

Invested in capital assets, net of related debt	18,201,588
Restricted for:	
Capital projects	1,097,553
Other special purposes	2,317,553
Unrestricted	<u>3,810,201</u>
Total net assets	<u>\$ 25,426,895</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, 2006

Revenues:	
Operating revenues:	
Tuition and fees	\$ 4,200,944
Grants and contracts, noncapital:	
Federal	4,655,202
State	4,337,854
Local	783,777
Auxiliary enterprise sales and charges	<u>1,312,178</u>
Total operating revenues	<u>15,289,955</u>
Expenses:	
Operating expenses (Note 13):	
Salaries	28,409,530
Benefits (Notes 8 and 9)	9,816,318
Supplies, materials and other operating expenses and services	13,377,351
Utilities	1,310,682
Depreciation (Note 4)	<u>1,128,818</u>
Total operating expenses	<u>54,042,699</u>
Loss from operations	<u>(38,752,744)</u>
Non-operating revenues (expenses):	
State apportionment, non capital	25,881,249
Local property taxes (Note 7)	11,121,522
State taxes and other revenues	8,103,713
Investment income	2,979,515
Interest expense on capital asset-related debt, net	(2,818,063)
Other non-operating expenses	<u>(30,087)</u>
Total non-operating revenues (expenses)	<u>45,237,849</u>
Income before capital revenues	<u>6,485,105</u>
Capital revenues:	
Local property taxes and revenues	452,996
Grants and gifts, capital	<u>219,795</u>
Total capital revenues	<u>672,791</u>
Increase in net assets	7,157,896
Net assets-beginning of year	<u>18,268,999</u>
Net assets-end of year	<u>\$ 25,426,895</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, 2006

Cash flows from operating activities:	
Tuition and fees	\$ 5,336,005
Federal grants and contracts	4,331,977
State grants and contracts	4,184,070
Local grants and contracts	404,240
Payments to suppliers	(10,410,780)
Payments for utilities	(1,333,483)
Payments to employees	(28,408,908)
Payments for benefits	(8,534,230)
Payments to students	(4,584,822)
Auxiliary enterprises sales and charges	<u>1,371,633</u>
Net cash used in operating activities	<u>(37,644,298)</u>
Cash flows from noncapital financing activities:	
State appropriations	25,645,041
Local property taxes	11,107,074
State taxes and other revenues	8,395,320
Other nonoperating revenues	(547)
Scholarship and trust receipts and disbursements	<u>79,195</u>
Net cash provided by noncapital financing activities	<u>45,226,083</u>
Cash flows from capital and related financing activities:	
Local revenue for capital purposes	453,884
Premiums received on issuance of capital debt, net	(431,500)
Gifts and grants, capital	219,795
Proceeds from sale of capital assets	(29,540)
Purchase of capital assets	(12,926,253)
Principal paid on capital debt	(1,253,068)
Interest paid on capital debt	(2,818,063)
Investment income, capital	
Net cash used in capital and related financing activities	<u>(16,784,745)</u>
Cash flows provided by investing activities:	
Interest income	<u>2,972,167</u>
Net decrease in cash and cash equivalents	(6,230,793)
Cash and cash equivalents, beginning of year	<u>90,964,204</u>
Cash and cash equivalents, end of year	<u>\$ 84,733,411</u>

(Continued)

SOLANO COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS
(Continued)
For the Year Ended June 30, 2006

Reconciliation of loss from operations to net cash used in operating activities:	
Loss from operations	\$ (38,752,744)
Adjustments to reconcile loss from operations to net cash used in operating activities:	
Depreciation expense	1,128,818
Changes in assets and liabilities:	
Receivables, net	1,039,886
Inventories	(36,952)
Prepaid expenses	(196,249)
Accounts payable	(1,536,875)
Accrued payroll	25,003
Deferred revenue	273,824
Compensated absences	(52,921)
Retiree enhancement program	<u>463,912</u>
Net cash used in operating activities:	<u>\$ (37,644,298)</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, 2006 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.

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.

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.

SOLANO COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

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.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the District's policy is to first apply the expense toward unrestricted resources, and then towards restricted resources.

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 recalculation in February 2007 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, 2006, consisted of the following:

Pooled Funds:	
Cash in County Treasury	\$ 81,861,828
Local Agency Investment Fund	548,596
Deposits:	
Cash on hand and in banks	2,255,643
Cash in Revolving Account	<u>67,344</u>
Total cash and cash equivalents	<u>84,733,411</u>
Less: restricted cash and cash equivalents:	
Cash in County Treasury	78,022,719
Cash held in trust	<u>468,550</u>
Total restricted cash and cash equivalents	<u>78,491,269</u>
Net cash and cash equivalents	<u>\$ 6,242,142</u>

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, 2006, 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, 2006.

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, 2006, the carrying amount of the District's cash on hand and in banks was \$2,322,987 and the bank balance was \$2,097,962. 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, 2006, 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, 2006, the District had no concentration of credit risk.

3. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2006 are summarized as follows:

Federal	\$	511,596
State		2,657,438
Local and other		<u>661,552</u>
	\$	<u>3,830,586</u>

SOLANO COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

4. CAPITAL ASSETS

Capital asset activity consists of the following:

	Balance July 1, 2005	Additions	Transfers and Disposals	Balance June 30, 2006
Land	\$ 4,262,650			\$ 4,262,650
Land improvements	4,093,179			4,093,179
Building improvements	165,950	\$ 126,888		292,838
Machinery and equipment	8,316,666	909,822	\$ (165,083)	9,061,405
Buildings	21,529,614	258,551		21,788,165
Construction work in progress	<u>7,082,241</u>	<u>14,272,171</u>	<u>(385,439)</u>	<u>20,968,973</u>
Total	<u>45,450,300</u>	<u>15,567,432</u>	<u>(550,522)</u>	<u>60,467,210</u>
Less accumulated depreciation:				
Land improvements	(2,599,849)	(69,831)		(2,669,680)
Building improvements	(4,858)	(10,761)		(15,619)
Machinery and equipment	(5,196,773)	(642,476)	135,543	(5,703,706)
Buildings	<u>(11,579,472)</u>	<u>(405,750)</u>		<u>(11,985,222)</u>
Total	<u>(19,380,952)</u>	<u>(1,128,818)</u>	<u>135,543</u>	<u>(20,374,227)</u>
Capital assets, net	<u>\$ 26,069,348</u>	<u>\$ 14,438,614</u>	<u>\$ (414,979)</u>	<u>\$ 40,092,983</u>

5. DEFERRED REVENUE

Deferred revenue at June 30, 2006 consists of the following:

Deferred Federal and State revenue	\$ 1,081,807
Deferred student fees	400,148
Deferred tuition and other student fees	<u>784,896</u>
Total deferred revenue	<u>\$ 2,266,851</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, 2005</u>	<u>Redeemed Current Year</u>	<u>Outstanding June 30, 2006</u>
April 1969	3.00%	2009	<u>\$ 117,200</u>	<u>\$ 30,000</u>	<u>\$ 87,200</u>

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 30,000	\$ 2,616	\$ 32,616
2008	30,000	1,716	31,716
2009	<u>27,200</u>	<u>816</u>	<u>28,016</u>
	<u>\$ 87,200</u>	<u>\$ 5,148</u>	<u>\$ 92,348</u>

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.

SOLANO COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

6. LONG-TERM DEBT (Continued)

General Obligation Bonds (Continued)

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 2,585,000	\$ 3,353,738	\$ 5,938,738
2008	2,445,000	3,278,288	5,723,288
2009	2,720,000	3,199,188	5,919,188
2010	3,010,000	3,104,863	6,114,863
2011	3,330,000	2,991,938	6,321,938
2012-2016	22,410,000	12,560,075	34,970,075
2017-2021	35,125,000	8,547,589	43,672,589
2022-2026	<u>8,684,812</u>	<u>7,695,843</u>	<u>16,380,655</u>
	<u>\$ 80,309,812</u>	<u>\$ 44,731,522</u>	<u>\$ 125,041,334</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>
2007	\$ 208,236	\$ 39,936	\$ 248,172
2008	149,475	30,652	180,127
2009	156,243	23,884	180,127
2010	79,748	16,778	96,526
2011	82,210	14,316	96,526
2012-2016	<u>377,950</u>	<u>31,086</u>	<u>409,036</u>
	<u>\$ 1,053,862</u>	<u>\$ 156,652</u>	<u>\$ 1,210,514</u>

SOLANO COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

6. LONG-TERM DEBT (Continued)

Changes in general long-term debt are as follows:

	Student Center Revenue Bonds	General Obligation Bonds	Retiree Benefits	Compensated Absences	Capitalized Lease Obligations	Total
Balance, July 1, 2005	\$ 117,200	\$81,349,812	\$ 5,653,004	\$ 1,068,285	\$ 1,257,201	\$89,445,502
Increases			1,401,340			1,401,340
Principal payments	<u>(30,000)</u>	<u>(1,040,000)</u>	<u>(937,428)</u>	<u>(52,921)</u>	<u>(203,339)</u>	<u>(2,263,688)</u>
Balance, June 30, 2006	<u>\$ 87,200</u>	<u>\$80,309,812</u>	<u>\$ 6,116,916</u>	<u>\$ 1,015,364</u>	<u>\$ 1,053,862</u>	<u>\$88,583,154</u>

The current portion of long-term debt excluding compensated absences was \$2,823,236 as of June 30, 2006.

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 plan is optional; however, if the employee selects the CB benefit plan 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 8.0% 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 2005-06 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, 2006, 2005, and 2004 were \$1,354,740, \$1,183,384 and \$1,104,576, 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, 2001, the independent actuaries for STRS determined that, at June 30, 2001, the actuarial value of the DB program's actuarial accrued liabilities exceeded the program's actuarial value of assets by \$2.2 billion. Based on this valuation, the current statutory contributions are sufficient to fund normal cost and amortize the actuarial unfunded obligation of \$2.2 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 Plan as of June 30, 2001, the independent actuaries for STRS determined that, at June 30, 2001, the actuarial value of the CB program's actuarial accrued liabilities exceeded the program's actuarial value of assets by \$1.2 million. The STRS management is continually evaluating the impact of market fluctuations on the assets of the CB 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 7.0% of their salary and the district is required to contribute an actuarially determined rate. The District's contribution rate to CalPERS for fiscal year 2005-06 was 9.12%.

Annual Pension Cost

The District's contributions to CalPERS for fiscal years ending June 30, 2006, 2005 and 2004 were \$778,259, \$828,402 and \$783,260, respectively, and equaled 100 percent of the required contributions for each year. The actuarial assumptions used as part of the June 30, 2001, 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, 2006, expenditures of approximately \$937,428 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 \$6,116,916 at June 30, 2006 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, 2006, the District has approximately \$16 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, 2005 NCCCSIA	June 30, 2005 NBSIA
Total assets	\$ 10,679,182	\$ 29,096,803
Total liabilities	\$ 4,870,114	\$ 19,296,626
Net assets	\$ 5,809,068	\$ 9,800,177
Total revenues	\$ 7,346,117	\$ 16,276,985
Total expenses	\$ 7,185,155	\$ 15,439,571

13. OPERATING EXPENSES

The following schedule details the functional classifications of the operating expenses reported in the statement of revenues, expenses and changes in net assets for the year ended June 30, 2006.

Functional Classifications	Salaries	Benefits	Supplies, Materials and Other Operating Expenses	Utilities	Depreciation	Total
Instruction Activities	\$16,809,702	\$ 5,418,981	\$ 2,634,865			\$24,863,548
Academic Support	2,723,210	863,131	2,243,615			5,829,956
Student Services	3,948,540	1,189,359	786,551			5,924,450
Operating and Maintenance of Plant	1,031,247	506,608	507,951	\$ 1,310,682		3,356,488
Instructional Support Services	2,673,177	1,400,097	1,444,652			5,517,926
Research	112,813	41,042	5,332			159,187
Physical Property and Related Acquisitions	239,569	92,455	475,344			807,368
Ancillary Services and Auxiliary Operations	871,272	304,645	887,906			2,063,823
Student Aid			4,391,135			4,391,135
Depreciation					\$ 1,128,818	1,128,818
Totals	<u>\$28,409,530</u>	<u>\$ 9,816,318</u>	<u>\$13,377,351</u>	<u>\$ 1,310,682</u>	<u>\$ 1,128,818</u>	<u>\$54,042,699</u>

14. SUBSEQUENT EVENT

Measure G, Series B, General Obligation Bonds

On September 12, 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.

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, 2006, and have issued our report thereon dated January 30, 2007. 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.

Perry-Smith LLP

January 30, 2007

SOLANO COMMUNITY COLLEGE DISTRICT

ORGANIZATION

June 30, 2006

Solano Community College District was established in 1945, and is comprised of one 192-acre campus. 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, 2006 were composed of the following members:

BOARD OF TRUSTEES

<u>Members</u>	<u>Office</u>	<u>Term Expires</u>
Jerry Wilkerson	President	December 2006
Pam A. Keith	Vice President	December 2006
Denis Honeychurch	Member	December 2008
James M. Claffey	Member	December 2006
Phil McCaffrey	Member	December 2008
A.C. "Tony" Ubalde, Jr.	Member	December 2008

DISTRICT ADMINISTRATION

Paulette J. Perfumo, PhD.
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, 2006

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Federal Expenditures
<u>U.S. Department of Education</u>		
Student Financial Aid:		
Federal Work Study	84.003	\$ 199,302
Pell Grant Program	84.064	3,634,279
Federal Supplemental Educational Opportunity Grant	84.007	<u>198,313</u>
Subtotal Student Financial Aid Cluster		<u>4,031,894</u>
Gear Up Partnership	84.344A	43,187
Vocational and Applied Technology Educational Act	84.048	271,071
Veteran Assistance Title 38	84.111	<u>3,931</u>
Total U.S. Department of Education		<u>4,350,083</u>
<u>U.S. Department of Agriculture</u>		
Child Care Food Program	10.558	<u>48,316</u>
<u>U.S. Department of Labor</u>		
Workforce Investment Act	17.261	<u>256,803</u>
Total Federal Categorical Awards and Allowances		<u>\$ 4,655,202</u>

See accompanying notes to
supplemental information.

SOLANO COMMUNITY COLLEGE DISTRICT
SCHEDULE OF STATE FINANCIAL AWARDS

For the Year Ended June 30, 2006

	Program Entitlements			Program Revenues				Program Expenditures
	Current Year	Prior Year	Total	Cash Received	Local Revenue Contributions	Accounts Receivable	Deferred Revenue	
EOPS Apportionment	\$ 489,926		\$ 489,926	\$ 489,926				\$ 489,926
CARE Grant	87,618		87,618	87,618				87,618
DSP&S Apportionment	663,806	\$ 1,803	665,609	665,609				665,609
MESA: Special Project	81,500	8,706	90,206	61,125		\$ 21,524		82,649
TANF: State Share	43,544		43,544	43,544				43,544
Cal Works	190,506	285,598	476,104	476,104			\$ 278,075	198,029
Lottery	206,838	87,630	294,468	294,468			39,285	255,183
Matriculation	425,126		425,126	425,126				425,126
Matriculation-Non-credit	36,632		36,632	36,632				36,632
Foster & Kinship Care	196,671		196,671	98,335		98,336		196,671
Independent Living	10,200		10,200			10,200		10,200
MESA	81,500	8,706	90,206	61,125		20,375		81,500
Tech Prep	75,250		75,250	75,250				75,250
Transfer Ed & Articulation		4,960	4,960	4,960				4,960
Small Business (BRAIN)	140,550		140,550	118,062		63,295	2,498	181,357
CCDF Capacity Project	11,335		11,335	5,164		6,171		11,335
PreKindergarten Resource	3,153		3,153	372				372
Econ Devel - Nursing	49,882		108,705	40,807		25,101		65,908
State Pre School: Pt Day	150,430	58,823	150,430	123,498		25,376		148,874
Food Program (State)	1,768	1,441	3,209	2,837		372		3,209
State Pre School: Ft Day	166,721		166,721	143,929	\$ 1,929	22,792		168,650
Childrens Center - Gen Child Care	307,034		307,034	307,034	5,121			312,155
TTIP	34,862		88,387	36,704			13,698	23,006
Staff Development			14,024	14,024			12,752	1,272
Staff Diversity	14,528	11,999	26,527	14,529		6,491		21,020
State Block Grant		73,240	73,240	232		35,300		35,532
TANF: CDC			54,408	19,480		11,882		31,362
Instructional Equipment	207,970	105,977	313,947	313,947			97,379	216,568
BFAP Administrative Allowance	297,501		297,501	297,501				297,501
Child Development Instructional Supplies	2,388		2,388	2,388				2,388
Total	\$ 4,031,647	\$ 716,432	\$ 4,748,079	\$ 4,260,330	\$ 7,050	\$ 347,215	\$ 443,687	\$ 4,170,908

See accompanying notes to supplemental information.

SOLANO COMMUNITY COLLEGE DISTRICT

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

Annualized Attendance as of June 30, 2006

	<u>Reported Data</u>	<u>Audit Adjustments</u>	<u>Revised Data</u>
Categories			
A. Credit full-time equivalent student (FTES)			
1. Weekly census	6,029.33		6,029.33
2. Daily census	273.42		273.42
3. Actual hours of attendance	727.80		727.80
4. Independent study work experience	<u>861.76</u>		<u>861.76</u>
Total	<u><u>7,892.31</u></u>		<u><u>7,892.31</u></u>
B. Noncredit FTES			
1. Actual hours of attendance	145.20		145.20
C. Gross square footage			
1. Existing facilities	403,728		403,728
2. New facilities	-		-
D. FTES in New Facilities	-		-

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, 2006

	<u>Revenue Bond Construction Fund</u>
June 30, 2006 Annual Financial and Budget Report: (CCFS-311) Fund Balance	\$ 71,663,842
Adjustments to Reconcile Ending Fund Balance:	
Understatement of accounts and retention payable	<u>(2,835,350)</u>
June 30, 2006 Audited Fund Balance	<u>\$ 68,828,492</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 general purpose 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 and account groups reported on the CCFS-311 to the audited 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, 2006, and have issued our report thereon dated January 30, 2007.

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 – Required Data Elements

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)
Open Enrollment
Minimum Conditions – "Standards of Scholarship"
Student Fees – Instructional Materials Fees and Health Fees

Student Services

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

**INDEPENDENT AUDITOR'S REPORT
ON STATE COMPLIANCE REQUIREMENTS**
(Continued)

Special Programs

Extended Opportunity Programs and Services – (EOPS) Allocation of Costs

Facilities

Non-credit Courses

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, 2006.

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
January 30, 2007

**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, 2006, and have issued our report thereon dated January 30, 2007. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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*.

**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)

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
January 30, 2007

**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, 2006. 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, 2006.

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 grant agreements 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

**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)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grant agreements that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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
January 30, 2007

FINDINGS AND RECOMMENDATIONS

SOLANO COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

June 30, 2006

FINANCIAL STATEMENTS

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Reportable condition(s) identified not considered to be material weakness(es)? _____ Yes X 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

Reportable condition(s) 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:

CFDA Number(s)	Name of Federal Program or Cluster
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? _____ Yes X No

STATE AWARDS

Internal control over State programs:

Material weakness identified? _____ Yes X No

Reportable conditions 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, 2006

STATE COMPLIANCE

1. NONCREDIT COURSES

Criteria

Education code section 70901; CCR, Title 5 Sections 55002(c), 55150, and 58050; Memo issued by Chancellor Drummond titled *Requirements for Claiming Apportionment for Noncredit Courses – Self Assessment Checklist for Compliance due into System Office* issued April 2005.

Condition

The District did not complete the required self-assessment checklists for noncredit courses.

Effect

The District is not in compliance with the requirements for Noncredit Courses.

Cause

The District did not complete the required Noncredit course self-assessment checklists.

Fiscal Impact

Not applicable.

Recommendation

We recommend the District ensure all required self-assessment checklists be completed for all Noncredit Courses.

Corrective Action Plan

Procedures have been implemented to ensure self-assessment checklists are performed for noncredit courses.

2. ALLOCATION OF COSTS (DSPS & EOPS)

Criteria

CCR Sections: 56002, 56026, 56292, 56294, 56295 and 56296. Costs allocated to DSPS and EOPS for services provided by District staff with other program responsibilities must be adequately documented to identify items and amounts being prorated, the basis and justification of the allocation, and amounts charged to each program.

SOLANO COMMUNITY COLLEGE DISTRICT

SUMMARY OF FINDINGS AND RECOMMENDATIONS

(Continued)

June 30, 2006

2. ALLOCATION OF COSTS (DSPS & EOPS) (Continued)

Condition

The District did not perform a time study to support the allocation of a multi-funded employee salary charged to the EOP&S program.

Effect

The District is not in compliance with the requirements for EOP&S.

Cause

The District did not maintain supporting documentation for payroll allocated and charged to restricted categorical programs.

Fiscal Impact

The fiscal impact of the condition is \$7,840.

Recommendation

The District should implement procedures requiring time studies to be performed for all employees who are multi-funded and whose salaries are charged to the EOP&S program.

Corrective Action Plan

Procedures have been implemented to ensure EOP&S time study requirements are now being met.

INTERNAL CONTROLS

3. STUDENT FEES COLLECTION

Criteria

Internal Controls – Safeguarding of Assets

Condition

We noted student fees for several courses are being collected by the faculty, rather than being paid to the registrar upon registration. Further, faculty members are not providing receipts to the students, nor is the faculty retaining deposit slips and submitting them to the fiscal services department.

Effect

Funds collected by other than the registrar's office may be misappropriated.

SOLANO COMMUNITY COLLEGE DISTRICT
SUMMARY OF FINDINGS AND RECOMMENDATIONS
(Continued)
June 30, 2006

INTERNAL CONTROLS (Continued)

3. STUDENT FEES COLLECTION (Continued)

Cause

District policy does not restrict the collection of students fees to the registrar's office.

Fiscal Impact

Unable to determine.

Recommendation

We recommend all student fees be paid directly to the registrar. In addition, the District should develop and implement policies to restrict the collection of student fees only to the registrar's office.

Corrective Action Plan

The District agrees with the finding and is developing a receipt collection policy which limits the collection of student fees to the registrars office.

4. BOOKSTORE

Criteria

Internal Controls – Safeguarding of Assets

Condition

- Cash registers utilized until the closing of the bookstore are not counted in dual custody.
- The access to the safe located in the bookstore is not limited to dual custody.

Effect

Funds may be misappropriated.

Cause

Due to minimal staffing in bookstore operations in the evenings, the procedures performed to close the store are performed by one individual.

Fiscal Impact

Unable to determine.

SOLANO COMMUNITY COLLEGE DISTRICT

SUMMARY OF FINDINGS AND RECOMMENDATIONS

(Continued)

June 30, 2006

INTERNAL CONTROLS (Continued)

4. BOOKSTORE (Continued)

Recommendation

- The cash registers should be counted in dual custody.
- The bookstore safe should always be limited to dual custody access. At times when dual custody is not feasible due to staffing constraints, access and responsibility of the safe should be assigned to one individual. Further, that individual should maintain custody and responsibility of the safe until counted again in dual custody.

Corrective Action Plan

The Bookstore procedures for securing cash and performing cash count have remained the same for many years. Management agrees that dual custody for cash counts and when accessing the safe is preferred compared to the current procedures. The overall size of the Bookstore operation and the need to maintain minimal textbook markup and other price controls to best serve students result in an organization headed by one supervisor. It is not possible to increase the number of supervisors or to increase regular staffing for the single purpose of assuring that cash counts at the end of each shift are done in the presence of an employee and the supervisor. Management will consider the best means to provide dual custody when performing cash counts and when accessing the safe within cost constraints.

5. BANK RECONCILIATIONS

Criteria

Internal Controls – Safeguarding of Assets

Condition

Bank reconciliations for fiduciary funds, clearing accounts and Cash in County Treasury are not being reviewed in a timely manner.

Effect

The delay in review of the bank reconciliations could allow errors to go undetected for extended amounts of time.

SOLANO COMMUNITY COLLEGE DISTRICT

SUMMARY OF FINDINGS AND RECOMMENDATIONS

(Continued)

June 30, 2006

INTERNAL CONTROLS (Continued)

5. BANK RECONCILIATIONS (Continued)

Cause

Turnover of personnel and other time constraints prevented the reconciliations from being review timely.

Fiscal Impact

Not applicable.

Recommendation

All bank reconciliations should be reviewed on a monthly basis and all reconciling items be resolved timely.

Corrective Action Plan

Procedures have been implemented to ensure all reconciliations are reviewed timely.

6. JOURNAL ENTRY TESTING

Criteria

Internal Controls – Safeguarding of Assets

Condition

The District does not have policies and procedures for the review of journal entries.

Effect

Journal entries could be posted inappropriately to alter a fiscal position or to misappropriate assets.

Cause

The District does not have an approved policy or written procedures requiring that all journal entries be reviewed and approved prior to posting to the general ledger.

Fiscal Impact

Not applicable.

SOLANO COMMUNITY COLLEGE DISTRICT

**SUMMARY OF FINDINGS AND RECOMMENDATIONS
(Continued)
June 30, 2006**

INTERNAL CONTROLS (Continued)

6. JOURNAL ENTRY TESTING (Continued)

Recommendation

Journal entries, meeting a certain threshold determined by the District, should be reviewed by an independent employee. Further, policies and procedures related to the journal entry process should be documented.

Corrective Action Plan

Procedures will be established for making a notation on journal entries to better describe the reason for each entry and include a review by a manager/supervisor.

7. ASSOCIATED STUDENT BODY

Criteria

Internal Controls – Safeguarding of Assets

Condition

- The Associated Student Body does not maintain a log of sub-receipt books from student organizations that performed fundraising events to support the amount of funds being deposited by the individual student clubs.
- The cashier's office does not receive supporting documentation for cash received.

Effect

The District is unable to determine that all receipts issued for funds collected during the fundraising efforts were submitted for deposit.

Cause

Procedures requiring sub-receipt books are utilized and detailed information supporting the amount of funds submitted for deposit are not established.

Fiscal Impact

Unable to determine.

SOLANO COMMUNITY COLLEGE DISTRICT
SUMMARY OF FINDINGS AND RECOMMENDATIONS
(Continued)
June 30, 2006

INTERNAL CONTROLS (Continued)

7. ASSOCIATED STUDENT BODY (Continued)

Recommendation

- Sub-receipt books should be maintained for all funds received by specific clubs and reconciled to the fund submitted for deposit.
- The District should require supporting documentation for all cash receipts, detailing the number of items sold and price per item be included with funds submitted for deposit.

Corrective Action Plan

The District has met with the Associated Student Body and their advisor to ensure that cash receipts are being maintained for all club activities and sales.

8. CONTRACT RETAINAGE

Criteria

Internal Controls – Safeguarding of Assets

Condition

The District is not consistently recording a 10% retainer within accounts payable for long-term contracts related to disbursement of bond funds.

Effect

The District's accounts payable and expense accounts are under stated. Also, the District may be paying the full contract balance, prior to completion of the project.

Cause

The District has not recorded the retention payable in the general ledger when the expense was incurred.

SOLANO COMMUNITY COLLEGE DISTRICT
SUMMARY OF FINDINGS AND RECOMMENDATIONS
(Continued)
June 30, 2006

8. CONTRACT RETAINAGE (Continued)

Fiscal Impact

Retentions payable in the Revenue Board Construction Fund were understated by \$295,436 at June 30, 2006.

Recommendation

We recommend the District record the contract retention in the general ledger as the project is completed.

Corrective Action Plan

The District will continue to withhold the 10% retention until the project completion and will now also record all retentions in the general ledger as the project progresses.

**STATUS OF PRIOR YEAR
FINDINGS AND RECOMMENDATIONS**

SOLANO COMMUNITY COLLEGE DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

For the Year Ended June 30, 2006

Finding	Recommendation	Current Status	District Explanation if Not Fully Implemented
1. Standards of Scholarship			
One student received double credit for a non-repeatable course as defined by District Standards of Scholarship policy.	The District should ensure procedures are adequate to prevent students from receiving credit for non-repeatable courses.	Implemented.	
2. Concurrent Enrollment of K-12 Students in Community College Credit Courses			
One concurrent enrollment student did not have approval from the K-12 school principal to enroll in college credit courses.	The District should ensure all concurrently enrolled students have received approval from school principals prior to enrollment in the college credit courses.	Implemented.	
3. Bookstore			
Cash register drawers utilized until nightly closing of the bookstore are not counted in dual custody. In addition, access to the safe located in the bookstore is not limited to dual custody..	The cash register drawers should be counted in dual custody. In addition, under typical internal control environments, the bookstore safe would always be limited to dual custody access. At times when dual custody is not feasible due to staffing constraints, access and responsibility of the safe should be assigned to one individual, so access is at least limited. Further, that individual should maintain custody and responsibility of the safe until counted again in dual custody.	Not Implemented.	See current year findings.
4. Bank Reconciliations			
Bank reconciliations were not prepared or reviewed in a timely manner during the 2004-2005 fiscal year.	All bank reconciliations should be prepared and reviewed on a monthly basis and all reconciling items should be resolved timely.	Not Implemented.	See current year findings.

SOLANO COMMUNITY COLLEGE DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

(Continued)

For the Year Ended June 30, 2006

Finding	Recommendation	Current Status	District Explanation if Not Fully Implemented
5. Journal Entry Testing			
The District does not have policies and procedures for the review of journal entries.	Journal entries meeting a certain threshold determined by the District should be reviewed by an independent employee. Further, policies and procedures related to the journal entry process should be documented.	Not Implemented.	See current year findings.
6. Associated Student Body			
The Associated Student Body does not maintain a log of sub-receipt books from student organizations that performed fundraising events. This log would support the amount of funds being deposited by the individual student clubs. In addition, the cashier's office does not receive supporting documentation for cash received.	Sub-receipt books should be maintained for all funds received from specific clubs and reconciled to the amounts submitted for deposit. In addition, the District should require supporting documentation for all cash receipts, detailing the number of items sold and price per item reconciled to the amount of funds submitted for deposit.	Not Implemented.	See current year findings.

